BBA IV th SEMESTER

BUSINESS POLICY & STRATERGIC ANALYSIS

MODULE – IV NOTES

HIERARCHICAL LEVELS OF STRATEGY

Strategy can be formulated on three different levels:

- ✓ CORPORATE LEVEL
- ✓ BUSINESS UNIT LEVEL
- ✓ FUNCTIONAL LEVEL

- ✓ **CORPORATE STRATEGY**

Corporate strategy tells us primarily about the choice of direction for the firm as a whole. In a large multi business company, however, corporate strategy is also about managing various product lines and business units for maximum value. Even though each product line or business unit has its own competitive or cooperative strategy that it uses to obtain its own competitive advantage in the market place, the corporation must coordinate these difference business strategies so that the corporation as a whole succeeds.

Corporate strategy includes decision regarding the flow of financial and other resources to and from a company’s product line and business units. Through a series of coordinating devices, a company transfers skills and capabilities developed in one unit to other units that need such resources.

A corporation’s l strategy is composed of three general orientations (also called grand strategies):

A) Growth strategies expand the company’s activities.

B) Stability strategies make no change to the company’s current activities.

C) Retrenchment strategies reduce the company’s level of activities.

D) **Combination strategies** is the combination of the above three strategies.

Having chosen the general orientation a company's managers can select from more specific corporate strategies such as concentration within one product line/industry or diversification into other products/industries. These strategies are useful both to corporations operating in only one product line and to those operating in many industries with many product lines.

By far the most widely pursued corporate directional strategies are those designed to achieve growth in sales, assets, profits or some combination. Companies that do business in expanding industries must grow to survive. Continuing growth means increasing sales and a chance to take advantage of the experience curve to reduce per unit cost of products sold, thereby increasing profits. This cost reduction becomes extremely important if a corporation's industry is growing quickly and competitors are engaging in price wars in attempts to increase their shares of the market. Firms that have not reached "critical mass" (that is, gained the necessary economy of large scale productions) will face large losses unless they can find and fill a small, but profitable, niche where higher prices can be offset by special product or service features. That is why Motorola Inc., continues to spend large sum on the product development of cellular phones, pagers, and two-way radios, despite a serious drop in market share and profits. According to Motorola's Chairman George Fisher, "what's at stake here is leadership". Even though the industry was changing quickly, the company was working to avoid the erosion of its market share by jumping into new wireless markets as quickly as possible. Being one of the market leaders in this industry would almost guarantee Motorola enormous future returns.

A Corporation can grow internally by expanding its operations both globally and domestically, or it can grow externally through mergers, acquisition and strategic alliances. A **merger** is a transaction involving two or more corporations in which stock is exchanged, but from which only one corporation survives. Mergers usually occur between firms of somewhat similar size and are usually "friendly". The resulting firm is likely to have a name derived from its composite firms. One example in the Pharma Industry is the merging of Glaxo and Smithkline Williams to form Glaxo Smithkline. An Acquisition is the purchase of a company that is completely absorbed as an operating subsidiary or division of the acquiring corporation. Examples are Procter & Gamble's acquisition of Richardson-Vicks, known for its Oil of Olay and Vicks Brands, and Gillette, known for shaving products.

The *Corporate Directional Strategies* are:

A) Growth

(i) Concentration

- Horizontal growth
- Vertical growth
    - Forward integration
    - Backward integration

(ii) Diversification

- Concentric
- Conglomerate

B) Stability

(i) Pause/Proceed with Caution

(ii) No Change

(iii) Profit

C) Retrenchment

(i) Turnaround

(ii) Captive Company

(iii) Sell-out / Divestment

(iv) Bankruptcy / Liquidation

A) ***GROWTH STRATEGY***

Acquisition usually occurs between firms of different sizes and can be either friendly or hostile. Hostile acquisitions are often called takeovers. A Strategic Alliances is a partnership of two or more corporations or business units to achieve strategically significant objectives that are mutually beneficial. Growth is a very attractive strategy for two key reasons.

- Growth is based on increasing market demand may mask flaws in a company (flaws that would be immediately evident in a stable or declining market. A growing flow of revenue into a highly leveraged corporation can create a large amount of organization slack. (unused resources) that can be used to quickly resolve problems and conflicts between departments and divisions. Growth also provides a big cushion for a turnaround in case a strategic error is made. Larger firms also have more bargaining power than do small firms and are more likely to obtain support from key stake holders in case of difficulty.

- A growing firm offers more opportunities for advancement, promotions, and interesting jobs, growth itself is exciting and ego enhancing for CEO's. The marketplace and potential investors tend to view a growing corporation as a winner or on the move. Executive compensation tends to get bigger as an organization increases in size. Large firms also more difficult to acquire than are smaller ones; thus an executive's job is more secure.

(i) CONCENTRATION STRATEGY: If a company's current product lines have real growth potential, concentration of resources on those product lines makes sense as a strategy for growth. The two basic concentration strategies are vertical growth and horizontal growth. Growing firms in a growing industry tend to choose these strategies before they try diversifications.

- *Vertical growth* can be achieved by taking over a function previously provided by a supplier or by a distributor. The company, in effect, grows by making its own supplies and/or by distributing its own products. This may be done in order to reduce costs, gain control over a scarce resource, guarantee quality of key input, or obtain access to potential customers.

  Eg: Henry Ford used internal company resources to build his River Rouge Plant outside Detroit. The manufacturing process was integrated to the point that iron ore entered one end of the long plant and finished automobiles rolled out the other end into a huge parking lot.

  Cisco Systems, the maker of Internet Hardware, chose the external route to vertical growth by purchasing Radiata, Inc., a maker of chips sets for wireless networks. This acquisition gave Cisco access to technology permitting wireless communications at speeds, previously possible only with wired connections.

Vertical growth results in vertical integration, the degree to which a firms operates vertically in multiple locations on an industry's value chain from extracting raw materials to manufacturing to retailing.

More specifically, assuming a function previously provided by a supplier is called **backward integration** (going backward on an industry's value chain). The purchase of Pentasia Chemicals by Asian Paints Limited for the chemicals required for the manufacturing of paints is an example of backward integration.

Assuming a function previously provided by a distributor is labeled **forward integration** (going forward an industry's value chain). Arvind mills, Egample, used forward integration when it expanded out of its successful fabric manufacturing business to make and market its own branded shirts and pants.

- *Horizontal Growth c*an be achieved by expanding the firm's products into other geographic locations and/or by increasing the range of products and services offered to current market. In this case, the company expands sideways at the same location on the industry's value chain.

  Eg: Ranbaxy Labs followed a horizontal growth strategy when it extended its pharmaceuticals business to Europe and to USE company can grow horizontally through internal development or externally through acquisitions or strategic alliances with another firm in the same industry.

  Horizontal growth results in horizontal integrations – the degree to which a firm operates in multiple geographic locations at the same point in an industry's value chain. Horizontal integration for a firm may range from full to partial ownership to long term contract.

(ii) DIVERSIFCATION STRATEGY: When an industry consolidates and becomes mature, most of the surviving firms have reached the limits of growth using vertical and horizontal growth strategies. Unless the competitors are able to expand internationally into less mature markets, they may have no choice but to diversify into different industries if they want to continue growing. The two basic diversification strategies are concentric and conglomerate.

- ***Concentric Diversification*** *(Related)* into a related industry may be a very appropriate corporate strategy when a firm has a strong competitive position but industry attractiveness is low. By focusing on the characteristics that have given the company its distinctive competence, the company uses those very strengths as its means of diversification. The firm attempts to secure strategic fit in a new industry where the firm's product knowledge, its manufacturing capabilities, and the marketing skills it used so effectively in the original industry can be put to good use.
- ***Conglomerate Diversification*** *(Unrelated)* takes place when management realizes that the current industry is unattractive and that the firms lacks outstanding abilities or skills that it could easily transfer to related products, or services in other industries, the most likely strategy is conglomerate diversification – diversifying into an industry unrelated to its current one. Rather than maintaining a common threat throughout their organization, strategic managers who adopt this strategy are primarily concerned with financials considerations of cash flow or risk reductions.

B) STABILITY STRATEGIES

A corporation may choose stability over growth by continuing its current activities without any significant change in direction. Although sometimes viewed as lack of strategy, the stability family of corporate strategies can be appropriate for a successful corporation operating in a reasonably predictable environment.

(i) Pause/Proceed With Caution Strategy **–** In effect, a time out or an opportunity to rest before continuing a growth or retrenchment strategy. It is a very deliberate attempt to make only incremental improvements until a particular environmental situation changes. It is typically conceived as a temporary strategy to be used until the environmental becomes more hospitable or to enable a company to consolidate its resources after prolonged rapid growth.

(ii) No Change Strategy **–** Is a decision to do nothing new (a choice to continue current operation and policies for the foreseeable future). Rarely articulated as a definite strategy, a no change strategy's success depends on a lack of significant change in a corporation's situation. The relative stability created by the firm's modest competitive position in an industry facing little of no growth encourages the company to continue on its current course. Making only small adjustments for inflation in the sales and profit objectives, there are no obvious opportunities or threats nor much in the way of significant strengths of weaknesses. Few aggressive new competitors are likely to enter such an industry.

(iii) Profit Strategy – Is a decision to do nothing new in worsening situation but instead to act as though the company's problems are only temporary. The profit strategy is an attempt to artificially support profits when a company's sales are declining by reducing investment and short term discretionary expenditures. Rather than announcing the company's poor position to shareholders and the investment community at large, top management may be tempted to follow this very seductive strategy. Blaming the company's problems on a hostile environment (such as anti-business government policies) management defers investments and / or buts expenses to stabilize profit during this period.

C) RETRENCHMENT STRATEGIES

A company may pursue retrenchment strategies when it has a weak competitive position in some or all of its product lines resulting in poor performance-sales are down and profits are becoming losses. These strategies impose a great deal of pressure to improve performance.

(i) Turnaround Strategy – Emphasizes the improvement of operational efficiency and is probably most appropriate when a corporation's problems are pervasive but not yet critical. Analogous to a weight reduction diet, the two basic phases of a turnaround strategy are CONTRACTION and CONSOLIDATION.

- **Contraction** is the initial effort to quickly "stop the bleeding" with a general across the board cutback in size and costs.
- **Consolidation**, implements a program to stabilize the now-leaner corporation. To streamline the company, plans are developed to reduce unnecessary overhead and to make functional activities cost justified. This is a crucial time for the organization. If the consolidation phase is not conducted in a positive manner, many of the best people leave the organization.

(ii) Captive Strategy – Is the giving up of independence in exchange for security. A company with a weak competitive position may not be able to engage in a full blown turnaround strategy. The industry may not be sufficiently attractive to justify such an effort from either the current management or from investors. Nevertheless a company in this situation faces poor sales and increasing losses unless it takes some action. Management desperately searches for an "angel" by offering to be a captive company to one of its larger customers in order to guarantee the company's continued existence with a long term contract. In this way, the corporation may be able to reduce the scope of some of its functional activities, such as marketing, thus reducing costs significantly.

(iii) Sell Out / Divestment Strategy – If a corporation with a weak competitive position in its industry is unable either to pull itself by its bootstraps or to find a customer to which it can become a captive company, it may have no choice to Sell Out. The sell out strategy makes sense if managements can still obtain a good price for its shareholders and the employees can keep their jobs by selling the entire company to another firm.

(iv) Bankruptcy/ Liquidation Strategy – When a company finds itself in the worst possible situation with a poor competitive position in an industry with few prospects, management has only a few alternatives– all of them distasteful. Because no one is interested in buying a weak company in an unattractive industry, the firm must pursue a bankruptcy or liquidation strategy.

- *Bankruptcy*: It involves giving up management of the firm to the courts in return for some settlement of the corporation's obligations. Top management hopes that once the court decides the claims on the company, the company will be stronger and better able to compete in a more attractive industry.
  Eg: GTB (Global Trust Bank) was promoted as a private sector bank in 1993, and was running successfully and setting records. In 2004, it became bankrupt under the pressure of bad loans and merged with a public sector bank, Oriental Bank of Commerce.

- *Liquidation*: It is the termination of the firm. Because the industry is unattractive and the company too weak to be sold as a going concern, management may choose to convert as many saleable assets as possible to cash, which is then distributed to the shareholders after all obligations are paid.
  Eg: Small businesses and partnership firms liquidate when one or more partners want to withdraw from the business.

  Liquidation may be done in the following ways:

  - Voluntary winding up.
  - Compulsory winding up under the supervision of the court.
  - Voluntary winding up under the supervision of the court.

[Note: The benefit of liquidation over bankruptcy is that the board of directors, as representatives of the shareholders, together with top management makes the decisions instead of turning them over to the court, which may choose to ignore shareholders completely.]

D) COMBINATION STRATEGIES

It is the combination of stability, growth & retrenchment strategies adopted by an organisation, either at the same time in its different businesses, or at different times in the same business with the aim of improving its performance. For example, it is certainly feasible for an organization to follow a retrenchment strategy for a short period of time due to general economic conditions and then pursue a growth strategy once the economy strengthens.

The obvious combination strategies include (a) retrench, then stability; (b) retrench, then growth; (c) stability, then retrench; (d) stability, then growth; (e) growth then retrench, and (f) growth, then stability.

Reasons for adopting combination strategies are given below

• Rapid Environment change

• Liquidate one unit, develop another

• Involves both divestment & acquisition (take over)

It is commonly followed by organizations with multiple unit diversified product & National or Global market in which a single strategy does not fit all businesses at a particular point of time.

- ✓ **BUSINESS STRATEGY**

The plans and actions that firms devise to compete in a given product/market scope or setting and asks the question "How do we compete within an industry?" is a business strategy. It focuses on improving the competitive position of a company's business unit's products or services within the specific industry or market segment that the company or business unit serves.

It can be:

A) *Competitive* – battling against all competitors for advantage which includes Low-cost leadership, Differentiation and Focus strategies; and/or
B) *Cooperative* – working with one or more competitors to gain advantage against other competitors which is also known as Strategic alliances.

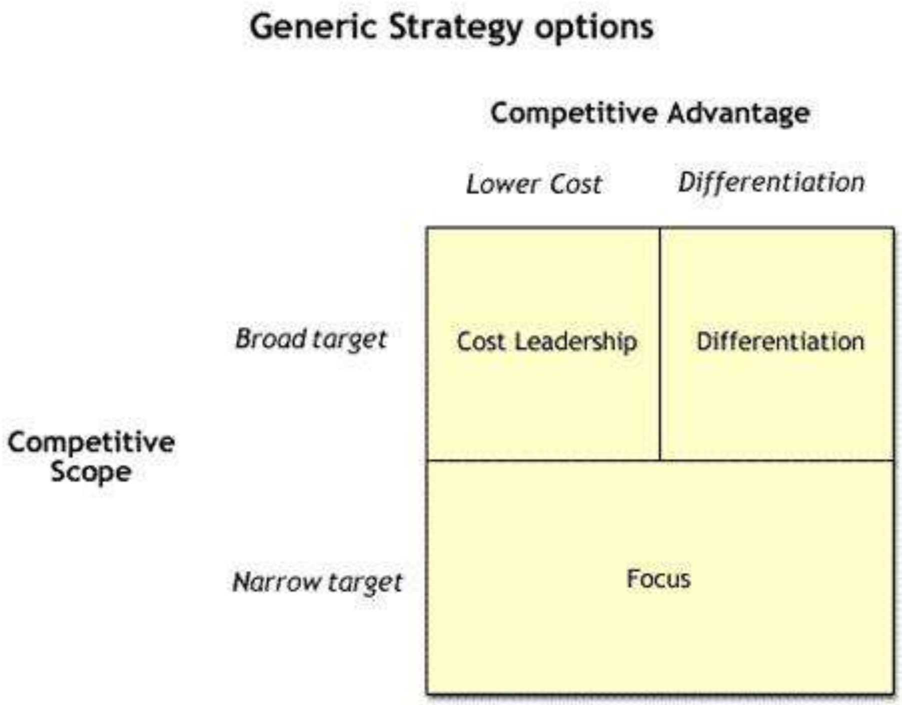
Eg: Wet grinder companies like Shantha and Sowbhagya seeks differentiation in a targeted market segment.

A) COMPETITIVE BUSINESS STRATEGY (PORTER'S GENERIC STRATEGY)

Porter's generic strategies framework constitutes a major contribution to the development of the strategic management literature. Generic strategies were first presented in two books by Professor Michael Porter of the Harvard Business School (Porter, 1980). Porter suggested that some of the most basic choices faced by companies are essentially the scope of the markets that the company would serve and how the company would compete in the selected markets. Competitive strategies focus on ways in which a company can achieve the most advantageous position that it possibly can in its industry . The profit of a company is essentially the difference between its revenues and costs. Therefore high profitability can be achieved through achieving the lowest costs or the highest prices facing the competition. Porter used the terms 'cost leadership' and 'differentiation', wherein the latter is the way in which companies can earn a price premium.

Main aspects of Porter's Generic Strategies Analysis

According to Porter, there are three generic strategies that a company can undertake to attain competitive advantage: cost leadership, differentiation, and focus.



<u>i) Low-Cost Strategy</u>: It is the ability of a company or a business unit to design, produce and market a comparable product more efficiently than its competitors. It is a competitive strategy based on the firm's ability to provide products or services at lower cost than its rivals. It is formulated to acquire a substantial cost advantage over other competitors that can be passed on to consumers to gain a large market share. As a result the firm can earn a higher profit margin that result from selling products at current market prices.

<u>Eg:</u> Whirlpool has successfully used a low-cost leadership strategy to build competitive advantage.

<u>ii) Differentiation Strategy</u>: It is the ability to provide unique and superior value to the buyer in terms of product quality, special features or after-sale service. It is a competitive strategy based on providing buyers with something special or unique that makes the firm's product or service distinctive. The customers are willing to pay a higher price for a product that is distinct in some special way. Superior value is created because the product is of higher quality and technically superior which builds competitive advantage by making customers more loyal and less-price sensitive to a given firm's product or service

<u>Eg:</u> Mercedes and BMW have successfully pursued differentiation strategies.

iii) Focus Strategy: It is designed to help a firm target a specific niche within an industry. Unlike both low-cost leadership and differentiation strategies that are designed to target a broader or industry-wide market, focus strategies aim at a specific and typically small niche. These niches could be a particular buyer group, a narrow segment of a given product line, a geographic or regional market, or a niche with distinctive special tastes and preferences.

Eg: Solectron is a highly specialized manufacturer of circuit boards used in PCs and other electronic devices which has adopted a well-defined focus strategy.

Combination (Stuck in the middle)

According to Porter, a company's failure to make a choice between cost leadership and differentiation essentially implies that the company is stuck in the middle. There is no competitive advantage for a company that is stuck in the middle and the result is often poor financial performance. However, there is disagreement between scholars on this aspect of the analysis. Kay (1993) and Miller (1992) have cited empirical examples of successful companies like Toyota and Benetton, which have adopted more than one generic strategy. Both these companies used the generic strategies of differentiation and low cost simultaneously, which led to the success of the companies.

B) COOPERATIVE BUSINESS STRATEGY (STRATEGIC ALLIANCE)

The role of strategic alliances in shaping corporate and business strategy has grown significantly over the past decade. In almost every industry, alliances are becoming more common as companies realize that they can no longer afford the costs of developing new products or entering new markets on their own. Alliances are especially prevalent in industries or technologies that change rapidly, such as semi conductors, airlines, automobiles, pharmaceuticals, telecommunications, consumer electronics and financial services. On a broader global level, many U.S and Japanese firms in the automobile and electronics industries have teamed up to develop new technologies, even as they compete fiercely to sell their existing products and enter each other’s markets.

A **Strategic Alliance** is a cooperative agreement between companies who are competitors from different companies. Strategic alliances are linkages between companies designed to achieve an objective faster or more efficiently than if either firm attempted to do so on its own. They serve a vital role in extending and renewing a firm's sources of competitive advantage because they allow companies to limit certain kinds of risk when entering new terrain.

Ex: In the beverage industry, Nestle works with Coca- Cola to gain access to the other's distribution channels.

In the computer hardware industry, Toshiba and Samsung have formed a strategic alliance for manufacturing advanced memory chips.

FACTORS PROMOTING THE RISE OF STRATEGIC ALLIANCES (OR) REASONS FOR FORMING STRATEGIC ALLIANCES

(i) To gain access to foreign markets – in the pharmaceutical industry, Pharmacia and Pfizer have formed an alliance for smooth market entry to accelerate the acceptance of a new drug.

(ii) To reduce financial risks – IBM, Toshiba and Siemens have entered into an alliance to share the fixed costs of developing new microprocessors.

(iii) To bring complementary skills – Intel formed and alliance with Hewlett- Packard (HP) to use HP's capability to develop Pentium microprocessors.

(iv) To reduce political risks – Maytag, a U.S company entered into alliance with Chinese appliance maker RSD to gain access to China.

(v) To achieve competitive advantage – GM and Toyota established joint venture by name Nummi Corporation.

(vi) To set technological standards – Philips entered into an alliance with Matsushita to manufacture and market the digital compact cassette.

(vii) To shape industry evolution – Lucent Technologies and Motorola entered into an alliance to develop a new generation of Digital signal processing chips that is designed to power next- generation cellular phones and other consumer electronics.

TYPES OF STRATEGIC ALLIANCES

a) Mutual Service Consortia: A Mutual Service Consortium is a partnership of similar companies in similar industries who pool their resources to gain a benefit that is too expensive to develop alone.

Eg: IBM offered Toshiba its expertise in chemical mechanical polishing to develop a new manufacturing process.

b) Joint Venture: A joint venture is a cooperative business activity, formed by two or more separate organizations for strategic purposes, that creates an independent business identity and allocates ownership, operational responsibilities and financial risks and rewards to each member, while preserving their separate identity or autonomy.

Eg: IOC and oil tanking GmbH formed a joint venture to build and operate terminating services for petroleum products.

c) Licensing Arrangement: A licensing agreement is an agreement in which the licensing firm grants rights to another firm in another country or market to produce and/ or sell a product.

Eg: P&G licensed the 'Old Spice' trademark and business to a Goa- based company, Menezes cosmetics (P) Ltd for a period of 10 years to manufacture, sell, distribute and market in India, Sri Lanka and Bangladesh.

d) Value-Chain Partnership: The value- chain partnership is a strong and close alliance in which one company or unit forms a long- term arrangement with a key supplier or distributor for mutual advantage.

Eg: Value- Chain partnership between Cisco Systems and its suppliers.

All forms of strategic alliances are filled with uncertainty. One thorny issue in any strategic alliance is how to cooperate without giving away the company or business unit's core competence. There are many other issues that need to be dealt with when the alliance is initially formed and others that emerge later.

Strategic alliance success factors

The success factors of strategic alliances are:-

- Have a clear strategic purpose;

- Find a fitting partner with compatible goals and complementary capabilities;
- Identify likely partnering risks and deal with them when the alliance is formed;
- Allocate tasks and responsibilities to each partner;
- Create incentives for cooperation to minimize differences in corporate culture;
- Minimize conflicts among partners by clarifying objectives and avoiding direct competition in market place;
- Comprehensive cross- cultural knowledge should be ensured in an international alliance;
- Exchange human resources to maintain communication and trust;
- Operate with long- term time horizons;
- Develop multiple joint products so that any failures are counterbalanced by successes;
- Share information to build trust and keep projects on target. Monitor customer responses and service complaints;
- Be flexible and willing to renegotiate the relationship of environmental changes and new opportunities;
- Agree upon an 'exit strategy' when the alliance is judged a failure.

✓ **FUNCTIONAL STRATEGY**

Functional strategy is the approach, a functional area takes to achieve corporate and business unit objectives and strategies by maximizing resource productivity. It is concerned with developing and nurturing a distinctive competence to provide a company and business firm with a competitive advantage. The orientation of the functional strategy is dictated by its parent business unit's strategy.

Eg: A business unit following a competitive strategy of differentiation through high quality needs a manufacturing functional strategy that emphasizes expensive quality assurance process over cheaper, high-volume production.

A HR functional strategy that emphasizes the hiring and training of a highly skilled but costly workforce and a marketing functional strategy that emphasizes distribution channel "pull" using "advertising" to increase consumer demand over "push" using promotional allowances to retailers.

If a business unit were to follow a low cost competitive strategy, however a different set of functional strategies would be needed to support the business strategy. Functional Strategies may need to vary from region to region.

Eg: When Maggi Noodles expanded into India, it was marketed as a snack food and not as a main course meal. Since Indians prefer a heavy breakfast, they preferred to eat noodles in the evening as a fast to cook and ready to serve evening meal, especially to children.

Any functional strategy will be successful if it is built around core competence and distinctive competence. When a firm does not have distinctive competence in any functional area, it is preferable to opt for outsourcing.

A) OUTSOURCING: is purchasing from someone else a product or service that had been previously provided internally. It is becoming an increasingly important part of strategic decision making and an important way to increase efficiency and often quickly. Firms competing in global industries must in particular search worldwide for the most appropriate suppliers.

Eg: Daimler Chrysler outsourced its designing of car accessory to Plexion Technologies in Bangalore. Toyota has outsourced its transmission components designing to BFL.

The key to outsourcing is to purchase from outside only those activities that are not key to the company's distinctive competencies. Otherwise, the company may give up the very capabilities that made it successful in the first place – thus providing itself on the road to eventual decline. In determining functional strategy, the strategist must.

- Identify the company's or business unit's core competencies
- Ensure that the competencies are continually being strengthened and
- Manage the competencies in such a way that best preserves the competitive advantage they create.

B) MARKETING STRATEGY

Marketing strategy deals with pricing, selling and distributing a product. Using a market development strategy, a company or business unit can:

- Capture a larger share of an existing market for current products through market saturation and market penetration or
- Develop new market for current products.

Eg: P & G, Colgate – Palmolive

Using Product development Strategy, a company or business unit can

- Develop new products Egisting markets or
- Develop new products for new markets.

Eg: GCMMF – Amul products (Using a successful brand name to market other products is called line extension and is a good way to appeal to a company's current customers).

Using Advertising and promotion strategy, a company or business unit can use

- *Push* Strategy – Spending a large amount of money on trade promotion inorder to gain or hold shelf space in retail outlets.
- *Pull* Strategy – spending a large amount of money on consumer advertising designed to build awareness so that shoppers will ask for the products.

Using Distribution strategy, a company or business unit can choose any method of distribution, namely

- Using distributors and dealers to sell the products
- Selling directly to the consumers

Using Pricing strategy, a company or business unit can choose,

- Skim pricing means high price, when the product is novel and competitors are few or
- Penetration pricing is aimed at gaining high market share with a low price.

C) FINANCIAL STRATEGY

Financial Strategy examines the financial implications of corporate and business level strategies options and identifies the best financial course of action. It attempts usually to maximize the financial strategies adopted by a company or a business unit. The Financial strategies may be:

- Achieving the desired debt to equity ratio and relying on internal long term financing (via) cash flow, (Equity financing is preferred for related diversification and debt financing for unrelated diversification)
- Leveraged buy out (LBO) – a company is acquired in a transaction, which is namely financed by funds arranged from a third party such as a bank of financial institutions. This firm declines because of inflated expectation , utilization of all stock, management burn out and a lack of strategic management and
- Management of dividends to shareholders.
- Establishing a tracking stock – followed by large established corporations. A tracking stock is a type of common stock tied to one portion of a corporations business. It is actually an equity interest, in the parent company. **Eg:** At & T.

D) RESEARCH & DEVELOPMENT STRATEGY

R& D Strategy deals with product and process innovation and improvement. It also deals with appropriate mix of different types of R & D (Basic, product, or process) and with the question of how new technology should be accessed by internal development, external acquisition or through strategic alliances. The R & D choices may be:

- Technology leadership in which one pioneers an innovation,
  Eg: Nike Inc. or

- Technological followership in which one imitates the products of competitors.
  Eg: Dean Foods Co.

E) OPERATIONS STRATEGY

Operation Strategy determines how and where a product or service is to be manufactured, the level of vertical integration in the production process and the deployment of physical resources. It should also deal with the optimum level of technology the firm should use in its operation processes. The strategies are:

- Advances manufacturing Technology (AMT) is revolutionizing operations worldwide and should continue to have a major impact as corporations strive to integrate diverse business activities using Computer integrated design and manufacturing (CAD / CAM)

- Manufacturing strategy of a firm is affected by a product's life cycle. A firm can opt for either production system
    - (a) Job shop operations through connected line batch flow or
    - (b) Flexible manufacturing systems and dedicated transfer lines/
- Continuous improvement strategy
- Mass customization
- Modular product designs

F) PURCHASING STRATEGY

Purchasing Strategy deals with obtaining the raw materials, parts and suppliers needed to perform the operations functions. The basic purchasing choices are

- *Multiple Sourcing* – is superior to other purchasing approaches because
    - (a) It forces suppliers to compete for the business of an important buyer, thus reducing purchasing costs and
    - (b) If one supplier could not deliver, another usually could, thus guaranteeing that parts and supplied would always be on hand when needed.
- *Sole Sourcing* – relies on only one supplier for a particular part. It is the only manageable way to obtain high superior quality. It can simplify the purchasing company's production process by using JIT rather than keeping inventories. It reduces transaction costs and builds quality by having purchaser and supplier work together as partners rather than as adversaries.
- *Parallel Sourcing* – Two suppliers are the sole suppliers of two different parts, but they are also backup suppliers for each other's parts. If one vendor cannot supply all of its part on time, the other vendor would be able to make up the difference.

G) LOGISTICS STRATEGY

Logistics strategy deals with the flow of products into and out of the manufacturing process. Three trends are evident, namely:

- *Centralization* – Refers to the centralized logistics group usually contains specialists with expertise in different transportation modes such as rail or trucking or
- *Outsourcing* – of logistics reduces cost and improves delivery time or

- *Use of internet* – simplifies logistical system and created an online system for its retailers and suppliers. Less chance for loose cases to be lost in delivery and paperwork doesn't have to be done.

H) HRM STRATEGY

HRM Strategy addresses the issue whether a company or business unit should try to:

- Hire a large no. of low skilled employees who receives low pay, perform repetitive jobs, and most likely quit after a short time (**Eg:** McDonald)
- Hire skilled employees who received relatively high pay and are cross trained to participate in self management work teams (**Eg:** MNC's)
- Business firms are experimenting with different category of workers
  - (a) Part time workers
  - (b) Temporary workers
  - (c) Leasing of employees

Diverse workforce constitutes a competitive advantage. Companies with a high degree of racial diversity follow a growth strategy it tends to have higher productivity than others.

I) INFORMATION SYSTEM STRATEGY

Corporations are turning to IS strategies to provide business units with competitive advantage. The IS strategies are:

- Use of sophisticated intranet for the use of employees where project team members living in one country can pass their work to team members in another country in which the work day is just beginning;
- IS to form closer relationship with both their customers and suppliers; and
- IS enables workers to have online communication with co-workers in other countries who use, a different language.

STRATEGIES TO AVOID

Several strategies, which could be considered corporate, business or functional, are very dangerous. Managers who made a poor analysis or lack creativity may be trapped into considering some of the following strategies to avoid, namely:

- *Follow the Leader* – Imitating a leading competitor's strategy might seems to be a good idea, but it ignores a firm's particular strengthens and weakness and the possibility that the leader may be wrong. **<u>Eg:</u>** Fujitsu Ltd, 2nd largest computer maker, was driven sine the 1960's with the ambition of catching up with IBM. It competed as a mainframe computer-maker but failed to notice that the mainframe business had reached maturity by 1990.
- *Hit Another Home Run* – If a company is successful because it pioneered an extremely successful product, it tends to search for another super product that will ensure growth and prosperity. **<u>Eg:</u>** Palaroid spent a lot of money in developing and "instant" movie camera, but the public ignored it in favour f the camcorder.
- *Arms race* – Entering into a spirited battle with another firm for increased market share might increase sales revenue, but that increase will probably be more then offset by increases in advertising, promotion, R&D, and manufacturing cost. **<u>Eg:</u>** Since the deregulation of airlines, price wars and special rates have contributed to the low profit margins or bankruptcy of many major airlines such as Eastern and Continental.
- *Do Everything* – When faced with several interesting opportunities, management of a corporation might have enough resources to develop each idea into a project, but money, time and energy are soon exhausted as the many projects demand large infusions of resource. **<u>Eg:</u>** Walt Disney Company's expertise in the entertainment industry led it to acquire the ABC Network, as the company progressed, it spent $750 M to build new theme parks and buy a cruise line. By 2000, even though corporate sales continued to increase, net income was falling.
- *Leasing Hands* – A corporation might have invested so much in a particular strategy that top management is unwilling to accept its failure. Believing that it has too much invested to quit, the corporation continues to throw "good money after bad". **<u>Eg:</u>** PAN American Airlines close to sell its profitable PAN AM Building and intercontinental Hotels to keep its money losing airline flying. It continued to suffer losses, until it had sold off everything and went bankrupt.

BUILDING AND RE-STRUCTURING THE CORPORATION

There are various methods for the firms to enter into a new business and restructure the existing one. Firms use following methods for building:

- **Start-up route:** In this route, the business is started from the scratch by building facilities, purchasing equipments, recruiting employees, opening up distribution outlet and so on.
- **Acquisition:** Acquisition involves purchasing an established company, complete with all facilities, equipment and personnel.
- **Joint Venture:** Joint venture involves starting a new venture with the help of a partner.
- **Merger:** Merger involves fusion of two or more companies into one company. **Takeover:** A company which is in financial distress can undergo the process of takeover. A takeover can be voluntary when the company requests another company to take over the assets and liabilities and save it from becoming bankrupt.

Re-structuring: Re-structuring involves strategies for reducing the scope of the firm by exiting from unprofitable business. Restructuring is a popular strategy during post liberalization era where diversified organizations divested to concentrate on core business. **Re-structuring strategies:**

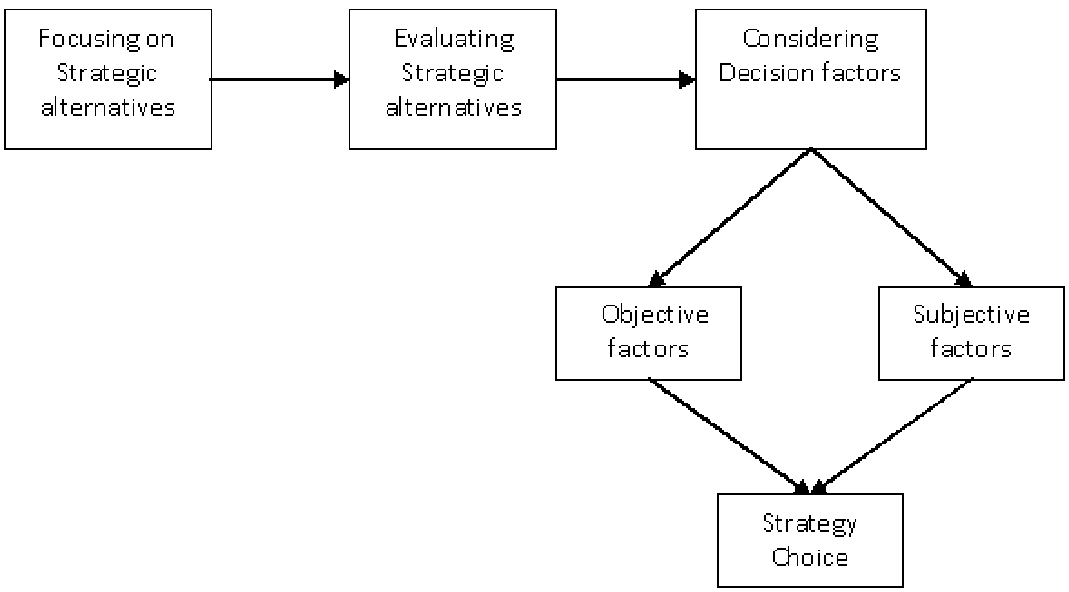
- **Retrenchment**: Retrenchment strategies are adopted when the firm‟s performance is poor and its competitive position is weak.
- **Divestment Strategy**: Divestment strategy requires dropping of some of the businesses or part of the business of the firm, which arises from conscious corporate judgement in order to reverse a negative trend.
- **Spin-off:** Selling of a business unit to independent investors is known as spin-off. It is the best way to recover the initial investment as much as possible. The highest bidder gets the divested unit.
- **Management-buyout**: selling off the divested unit to its management is known as management buyout.
- **Harvest strategy:** A harvest strategy involves halting investment in a unit in order to maximize short- to- medium term cash flow from that unit before liquidating it. **Liquidation:** Liquidation is considered to be an unattractive strategy because the industry is unattractive and the firm is in a weak competitive position. It is pursued as a last step because the employees lose jobs and it is considered to be a sign of failure of the top management.

STRATEGIES ANALYSIS AND CHOICE

Choice of a strategy involves an understanding of choice mechanism and issues involved in it. Strategies Choice is the evaluation of alternative strategies and selection of the best alternative. Choice involves decision- making process and it includes the following steps:-

- Focusing on strategic alternatives
- Evaluating strategic alternatives
- Considering decision factors
    - subjective factors
    - objective factors
- Strategic choice

STRATEGIC CHOICE PROCESS



Focusing on strategic alternatives: It involves identification of all alternatives. The strategist examines what the organization wants to achieve (desired performance) and what it has really achieved (actual performance). The gap between the two positions constitutes the background for various alternatives and diagnosis. This is gap analysis. The gap between what is desired and what is achieved widens as the time passes if no strategy is adopted.

Evaluating strategic alternatives: The next step is to assess the pros and cons of various alternatives and their suitability. The tools which may be used are portfolio analysis, GE business screen and corporate Parenting. [Describe each of these]

Considering decision factors:

(i) Objective factors:-

- Environmental factors
    - Volatility of environment
    - Input supply from environment
    - Powerful stakeholders
- Organizational factors
    - Organization's mission
    - Strategic intent
    - Business definition
    - Strengths and weaknesses

(ii) Subjective factors:-

- Strategies adopted in the previous period;
- Personal preferences of decision- makers;
- Management's attitude toward risk;
- Pressure from stakeholders;
- Pressure from corporate culture; and
- Needs and desires of key managers.

Constructing Corporate scenario: Corporate scenario consists of proforma balance sheets and income statement which forecasts the strategic alternative's impact on various divisions.

First: 3 sets of estimated figures for optimistic, pessimistic and most likely conditions are manipulated for all economic factors and key external strategic factors.

Second: Common size financial statements with projections are drawn.

Third: Based on historical data from previous years balance sheet projection for next 5 years for Optimistic (O), Pessimistic (P), and Most likely (M) are developed.

Corporate scenario is constructed for every strategic alternative considering both environmental factors and market conditions. It provides sufficient information for a strategist to make final decision.

Process of Strategic Choice:

Two techniques are used in the process of selection of a strategy, namely:

(i) *Devil's Advocate* – in strategic decision- making is responsible for identifying potential pitfalls and problems in a proposed strategic alternative by making a formal presentation.
(ii) *Dialectical inquiry* – involves making two proposals with contrasting assumptions for each strategic alternative. The merits and demerits of the proposal will be argued by advocates before the key decision-makers. Finally one alternative will emerge viable for implementation.

ENVIRONMENT THREAT AND OPPORTUNITY PROFILE (ETOP)

Meaning of Environmental Scanning: Environmental scanning can be defined as the process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business for the purpose of taking strategic decisions.

Appraising the Environment: In order to draw a clear picture of what opportunities and threats are faced by the organization at a given time. It is necessary to appraise the environment. This is done by being aware of the factors that affect environmental appraisal identifying the environmental factors and structuring the results of this environmental appraisal.

Structuring Environmental Appraisal: The identification of environmental issues is helpful in structuring the environmental appraisal so that the strategists have a good idea of where the environmental opportunities and threats lie. There are many techniques to structure the environmental appraisal. One such technique suggested by Gluek is that preparing an ETOP for an organization. The preparation of an ETOP involves dividing the environment into different sectors and then analyzing the impact of each sector on the organization.

Environment threat and opportunity profile (ETOP) for a bicycle company

S.No	**Environmental sector**	**Nature of Impact**
1	Economic	Up Arrow
2	Market	Horizontal Arrow
3	International	Down Arrow

- Up Arrow indicates Favorable Impact
- Down Arrow indicates unfavorable Impact
- Horizontal Arrow indicates Neutral Impact

The preparation of an ETOP provides a clear picture to the strategists about which sectors and the different factors in each sector have a favorable impact on the organization. By the means of an ETOP, the organization knows where it stands with respect to its environment. Obviously, such an understanding can be of a great help to an organization in formulating appropriate strategies to take advantage of the opportunities and counter the threats in its environment.

<u>Advantage of ETOP</u>

- It provides a clear of which sector and sub sectors have favorable impact on the organization. It helps interpret the result of environment analysis.
- The organization can assess its competitive position.
- Appropriate strategies can be formulated to take advantage of opportunities and counter the threat.

STRATEGIC ADVANTAGE PROFILE (SAP)

Every firm has strategic advantages and disadvantages. For example, large firms have financial strength but they tend to move slowly, compared to smaller firms, and often cannot react to changes quickly. No firm is equally strong in all its functions. In other words, every firm has strengths as well as weaknesses.

Strategists must be aware of the strategic advantages or strengths of the firm to be able to choose the best opportunity for the firm. On the other hand they must regularly analyse their strategic disadvantages or weaknesses in order to face environmental threats effectively

Examples:

The Strategist should look to see if the firm is stronger in these factors than its competitors. When a firm is strong in the market, it has a strategic advantage in launching new products or services and increasing market share of present products and services.

Strategic Advantage Profile for a bicycle company

S.No	**Capability Factor**	**Nature of Impact**	**Competitive strengths or weaknesses**
1	Finance	Down Arrow	High cost of capital, reserves and surplus position unsatisfactory
2	Marketing	Horizontal Arrow	Fierce competition in industry's
3	Information	Up Arrow	Advanced Management information system

- Up Arrow indicates Strength
- Down Arrow indicates Weaknesses
- Horizontal Arrow indicates Neutral

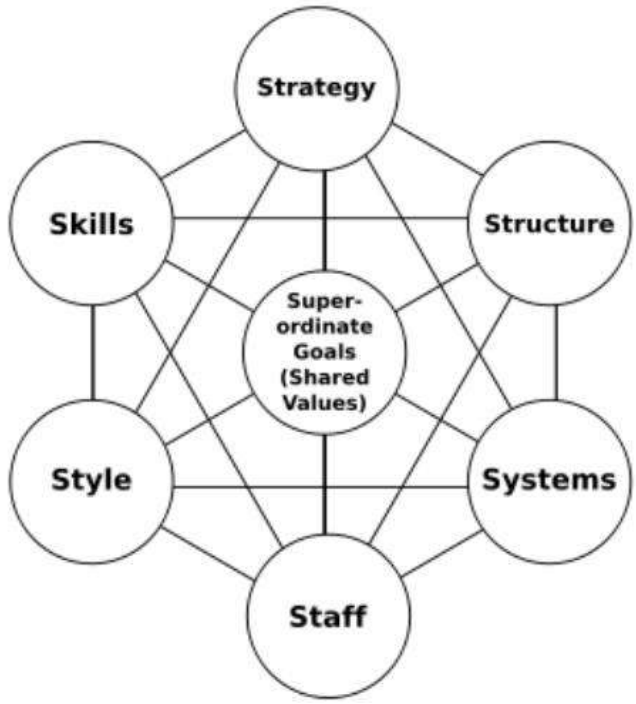
ORGANIZATIONAL CAPABILITY PROFILE (OCP)

The organizational capability profile is drawn in the form of a chart. The strategists are required to systematically assess the various functional areas and subjectively assign values to the different functional capability factors and sub factors along a scale ranging from values of -5 to +5.

Capability Factors	Weakness (-5)	Normal (0)	Strength (+5)
Financial	-5		
Technical		0	
Human Resource	-5		
Marketing			5
R&D		0	

MCKINSEY'S 7S FRAMEWORK

The framework suggests that there is a multiplicity of factors that influence an organization's ability to change and its proper mode of change. Because of the interconnectedness of the variables, it would be difficult to make significant progress in one area without making progress in the others as well. There is no starting point or implied hierarchy in the shape of the diagram, and it is not obvious which of the seven factors would be the driving force in changing a particular organization at a certain point of time. The critical variables would be different across organizations and in the same organizations at different points of time.



The 7 S –

a) Superordinate goals – are the fundamental ideas around which a business is built

b) Structure – salient features of the units's organizational chart and inter connections within the office

c) Systems – procedures and routine processes, including how information moves around the unit

d) Staff – personnel categories within the unit and the use to which staff are put, skill base, etc

e) Style – characterization of how key managers behave in order to achieve the unit's goals

f) Shared values strategy – the significant meanings or guiding concepts that the unit imbues on its members

g) Skills – distinctive capabilities of key personnel and the unit as a whole

The 7 S model can be used in two ways –

1. Considering the links between each of the S's one can identify strengths and weaknesses of an organization. No S is strength or a weakness in its own right, it is only its degree of support, or otherwise, for the other S's which is relevant. Any S's that harmonises with all the other S's can be thought of as strength and weaknesses
2. The model highlights how a change made in any one of the S's will have an impact on all the others. Thus if a planned change is to be effective, then changes in one S must be accompanied by complementary changes in the others.

CORPORATE PORTFOLIO ANALYSIS

When the company is in more than one business, it can select more than one strategic alternative depending upon demand of the situation prevailing in the different portfolios. It is necessary to analyze the position of different business of the business house which is done by corporate portfolio analysis.

Portfolio analysis is an analytical tool which views a corporation as a basket or portfolio of products or business units to be managed for thebest possible returns.

When an organization has a number of products in its portfolio, it is quite likely that they will be in different stages of development. Some will be relatively new and some much older. Many organizations will not wish to risk having all their products at the same stage of development. It is useful to have some products with limited growth but producing profits steadily, and some products with real growth potential but may still be in the introductory stage. Indeed, the products that are earning steadily may be used to fund the development of those that will provide the growth and profits in the future.

So the key strategy is to produce a balanced portfolio of products, some with low risk but dull growth and some with high risk but great potential for growth and profits. This is what we call as portfolio analysis.

The aim of portfolio analysis is

1) to analyze its current business portfolio and decide which businesses should receive more or less investment
2) to develop growth strategies, for adding new businesses to the portfolio
3) to decide which business should not longer be retained

Balancing the portfolio –

Balancing the portfolio means that the different products or businesses in the portfolio have to be balanced with respect to four basic aspects –

- Profitability
- Cash flow
- Growth
- Risk

This analysis can be done by any of the following technologies –

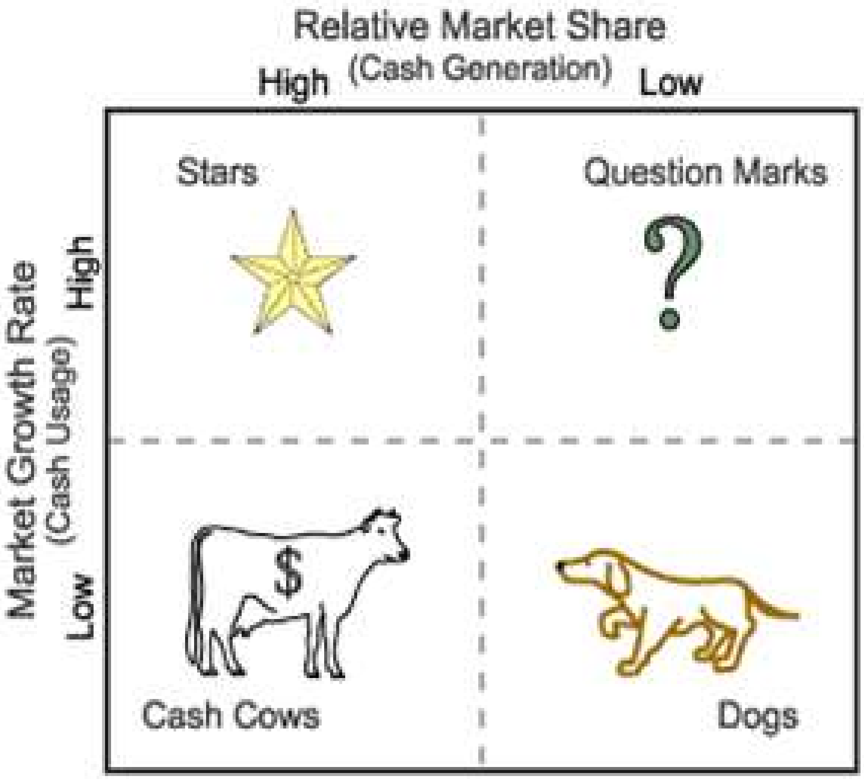
A) BCG matix
B) GE nine cell matrix

A) BCG MATRIX – the bcg matrix was developed by Boston Consulting group in 1970s. It is also called as the growth share matrix. This is the most popular and most simplest matrix to describe the corporation's portfolio of businesses or products.

The BCG matrix helps to determine priorities in a product portfolio. Its basic purpose is to invest where there is growth from which the firm can benefit, and divest those businesses that have low market share and low growth prospects.

Each of the products or business units is plotted on a two dimensional matrix consisting of

a) relative market share – is the ratio of the market share of the concerned product or business unit in the industry divided by the share of the market leader
b) market growth rate – is the percentage of market growth, by which sales of a particular product or business unit has increased



Analysis of the BCG matrix – the matrix reflects the contribution of the products or business units to its cash flow. Based on this analysis, the products or business units are classified as –

i) Stars
ii) Cash cows
iii) Question marks
iv) Dogs

i) Stars – high growth, high market share

Stars are products that enjoy a relatively high market share in a strongly growing market. They are potentially profitable and may grow further to become an important product or category for the company. The firm should focus on and invest in these products or business units. The general features of stars are -

- High growth rate means they need heavy investment
- High market share means they have economies of scale and generate large amount of cash
- But they need more cash than they generate

The high growth rate will mean that they will need heavy investment and will therefore be cash users. Overall, the general strategy is to take cash from the cash cows to fund stars. Cash may also be invested selectively in some problem children (question marks) to turn them into stars. The other problem children may be milked or even sold to provide funds elsewhere.

Over the time, all growth may slow down and the stars may eventually become cash cows. If they cannot hold market share, they may even become dogs.

ii) Cash Cows – Low growth, high market share

These are the product areas that have high relative market shares but exist in low-growth markets. The business is mature and it is assumed that lower levels of investment will be required. On this basis, it is therefore likely that they will be able to generate both cash and profits. Such profits could then be transferred to support the stars. The general features of cash cows are –

- They generate both cash and profits
- The business is mature and needs lower levels of investment
- Profits are transferred to support stars/question marks
- The danger is that cash cows may become under-supported and begin to lose their market

Although the market is no longer growing, the cash cows may have a relatively high market share and bring in healthy profits. No efforts or investments are necessary to maintain the status quo. Cash cows may however ultimately become dogs if they lose the market share.

iii) Question Marks – high growth, low market share

Question marks are also called problem children or wild cats. These are products with low relative market shares in high growth markets. The high market growth means that considerable investment may still be required and the low market share will mean that such products will have difficulty in generating substantial cash. These businesses are called question marks because the organization must decide whether to strengthen them or to sell them.

The general features of question marks are –

- Their cash needs are high
- But their cash generation is low
- Organization must decide whether to strengthen them or sell them

Although their market share is relatively small, the market for question marks is growing rapidly. Investments to create growth may yield big results in the future, though this is far from certain. Further investigation into how and where to invest is advised.

iv) Dogs – Low growth, low market share

These are products that have low market shares in low growth businesses. These products will need low investment but they are unlikely to be major profit earners. In practice, they may actually absorb cash required to hold their position. They are often regarded as unattractive for the long term and recommended for disposal. The general features of dogs are –

- They are not profit earners
- They absorb cash
- They are unattractive and are often recommended for disposal.

Turnaround can be one of the strategies to pursue because many dogs have bounced back and become viable and profitable after asset and cost reduction. The suggested strategy is to drop or divest the dogs when they are not profitable. If profitable, do not invest, but make the best out of its current value. This may even mean selling the division’s operations.

Advantages –

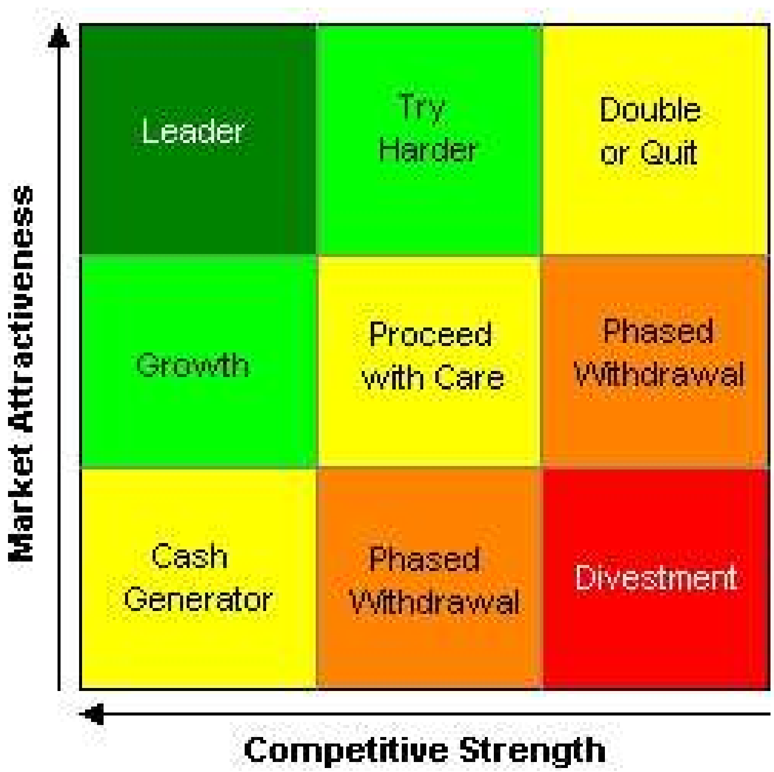
- it is easy to use
- it is quantifiable
- it draws attention to the cash flows
- it draws attention to the investment needs

Limitations –

- it is too simplistic
- link between market share and profitability is not strong
- growth rate is only one aspect of industry attractiveness
- it is not always clear how markets should be defined
- market share is considered as the only aspect of overall competitive position
- many products or business units fall right in the middle of the matrix, and cannot easily be classified.

BCG matrix is thus a snapshot of an organization at a given point of time and does not reflect businesses growing over time.

B) GE Nine-cell matrix



This matrix was developed in 1970s by the General Electric Company with the assistance of the consulting firm, McKinsey & Co, USA. This is also called GE multifactor portfolio matrix.

The GE matrix has been developed to overcome the obvious limitations of BCG matrix. This matrix consists of nine cells (3X3) based on two key variables:

i) business strength
ii) industry attractiveness

The horizontal axis represents business strength and the vertical axis represent industry attractiveness

The business strength is measured by considering such factors as:

- relative market share
- profit margins
- ability to compete on price and quality
- knowledge of customer and market
- competitive strengths and weaknesses
- technological capacity
- caliber of management

Industry attractiveness is measured considering such factors as :

- market size and growth rate
- industry profit margin
- competitive intensity
- economies of scale
- technology
- social, environmental, legal and human aspects

The industry product-lines or business units are plotted as circles. The area of each circle is proportionate to industry sales. The pie within the circles represents the market share of the product line or business unit.

The nine cells of the GE matrix represent various degrees of industry attractiveness (high, medium or low) and business strength (strong, average and weak). After plotting each product line or business unit on the nine cell matrix, strategic choices are made depending on their position in the matrix.

Spotlight Strategy

GE matrix is also called “Stoplight” strategy matrix because the three zones are like green, yellow and red of traffic lights.

1) Green indicates invest/expand – if the product falls in green zone, the business strength is strong and industry is at least medium in attractiveness, the strategic decision should be to expand, to invest and to grow.
2) Yellow indicates select/earn – if the product falls in yellow zone, the

business strength is low but industry attractiveness is high, it needs caution and managerial discretion for making the strategic choice

3) Red indicates harvest/divest – if the product falls in the red zone, the business strength is average or weak and attractiveness is also low or medium, the appropriate strategy should be divestment.

Advantages –

1) It used 9 cells instead of 4 cells of BCG
2) It considers many variables and does not lead to simplistic conclusions
3) High/medium/low and strong/average/low classification enables a finer distinction among business portfolio
4) It uses multiple factors to assess industry attractiveness and business strength, which allow users to select criteria appropriate to their situation

Limitations –

1) It can get quite complicated and cumbersome with the increase in businesses
2) Though industry attractiveness and business strength appear to be objective, they are in reality subjective judgements that may vary from one person to another
3) It cannot effectively depict the position of new business units in developing industry
4) It only provides broad strategic prescriptions rather than specifics of business policy

Comparision GE versus BCG -

Thus products or business units in the green zone are almost equivalent to stars or cashcows, yellow zone are like question marks and red zone are similar to dogs in the BCG matrix.

Difference between BCG and GE matrices –

BCG Matrix	GE Matrix
1. BCG matrix consists of four cells	1. GE matrix consists of nine cells
2. The business unit is rated against relative market share and industry growth rate	2. The business unit is rated against business strength and industry attractiveness
3. The matrix uses single measure to assess growth and market share	3. The matrix used multiple measures to assess business strength and industry attractiveness
4. The matrix uses two types of classification i.e high and low	4. The matrix uses three types of classification i.e high/medium/low and strong/average/weak
5. Has many limitations	5. Overcomes many limitations of BCG and is an improvement over it

MODULE –V

ETHICAL ISSUES IN STRATREGIC MANAGEMENT

- Corporate Culture is a set of important assumptions- often un-stated but most members share in common. Something like "people at top do not understand" or "Whether you work or don't work, you will get salary", "there is stagnation at Top" or "Turnover is important."
- Thus shared things like uniforms, Shared sayings, shared actions like service oriented approach, shared feelings like "hard work is not rewarded here" creates a Corporate culture.
- Strategists have four approaches to create a strategy related supportive culture. This depends on strategy-culture relationship.

Ignore corporate culture: Changes required are very high and compatibility of change is low, then	To adapt strategy implementation to suit corporate culture. Changes required are very high and compatibility of change is also high, then
To change strategy to fit corporate culture Changes required are very low and compatibility of change is also low, then	To change corporate culture to suit strategic requirements :Changes required are very low and compatibility of change is high, then

- Corporate Politics and Power: Power is an ability to influence others and politics is carrying out activities though not prescribed by any Policy to gain advantages and influence distribution.
- Corporate politics is not good or bad but it creates divisiveness which is not good.
- Sources of Power : 'Reward Power' – ability of Manager to reward people of his choice. 'Coercive Power' – Ability to penalise negative results. 'Legitimate Power' Ability of Mangers to influence behaviour of sub ordinates. Referent Power is Managers to create liking among subordinates due to charisma or knowledge. Expert Power is due to competence, knowledge and experience of Managers.

- Value is a view of life and a judgement of what is desirable and what is correct. These views forms personality of a leader and creates a group's morale. Business ethics are traditionally been considered as core values like honesty, trust, respect & fairness.

<u>To inculcate these value and ethics:</u>

- Consider Values & Ethics of a person during recruitment.
- Incorporate in new comer trainees and in training programme.
- Top management to set examples.
- Communicate Values & Ethics through wide publicity.
- Consistently monitor and nurture values and build ethics.
- Social Responsibility along with ethics becomes a stated or un-stated requirement. It gets attended in Strategic Planning through environmental appraisals. It has differing views, while some do not want it to be considered in business operations, others boast around it. However, most business houses observe a balance and undertake to deliver social responsibility and business objectives without contradicting each other.
- Social Responsibility extends beyond the workforce and stakeholders and many business houses take up activities for community welfare, rural development, sports etc.
- Presently, with ISO:14001:2004 which concerns Environment Management Systems, it has become a necessity to address the mode and means of delivering social responsibility.
- Like any other strategic functions, for successful implementation, Organisations need to allocate resources, create Organisation Structure and evaluate its effectiveness. But all said and done, the

society in large remains a major stake holder and we cannot escape our dues to society and towards social responsibility.

BBA IV th SEMESTER
Entrepreneurship Development
Module: IVth and Vth Notes

CONTENTS

Objectives

After studying this unit, you will be able to:

- Describe the central level institutions
- Explain the state level institutions
- Know about the other agencies

Introduction

Government has recognized the important role of entrepreneurs in the industrial development of the country, especially through the Small Scale Industries (SSIs). SSIs are essential for Indian economy in terms of employment generation, foreign exchange earnings, and its share in industrial output, and contribution to national income. The government of India and state governments provides a number of special facilities and incentives.

The incentives not only motivate entrepreneurs to set up industries in the small scale sector, but also strengthen the entrepreneurial base in the economy. The new entrepreneurs face a number of problems on account of inadequate infrastructure facilities and other support services.

The government offers a package of services through its specialized institutions and motivates entrepreneurs to take advantage of the various facilities and establish enterprises and flourish. This package includes assistance in obtaining finance, help in marketing, technical guidance, training, and technology up gradation etc. It is hoped that institutional incentives would play a key role in the promotion of small enterprises and ensure their self-sustained growth.

Central Level Institutions

Following are the various central level institutions that support small business enterprises:

Small Scale Industries Board

SSI Board is the apex non-statutory advisory body constituted by the Government of India to render advice on all issues pertaining to the SSI sector. It provides a forum to its members for interaction to facilitate cooperation and inter-institutional linkages and to render advice to the Government on various policy matters, for the development of the sector.

Small Industry Development Organization

Notes The Board was first constituted in 1954. Its term is for two years. The Board was last constituted on 18th January 2003, with 101 members and held its 48th meeting on 17 January, 2004.

The Office of the Development Commissioner (Small Scale Industries) is also known as the Small Industry Development Organization (SIDO). It is an apex body, established in 1954, for assisting the Ministry in formulating, coordinating, implementing and monitoring policies and programmes for the promotion and development of small scale industries. It has over 60 offices and 21 autonomous bodies under its management, including Tool Rooms, Training Institutions and Project-cum-Process Development Centres etc. Functions of such main bodies are as follows:

a. ***Small Industries Service Institutes (SISIs)*** are operational one in each state. They provide technical support and consultancy services, conduct entrepreneurship development programmes, and export promotion and liaison activities Emphasizes is also placed on implementation of programmes on modernization, energy conservation, quality control/ up gradation and pollution control for the benefit of entrepreneurs.
b. ***Regional Testing Center (RTC)*** provides Testing facilities for product quality up gradation.
c. ***Tool Rooms/Tool Design Institutes (TRs/TDI)*** assist SSIs in technical up gradation, and provide good quality tooling by designing and producing tools, moulds, jigs & fixtures, components, etc.
d. ***Product-cum-Process Development Centres (PPDCs)*** look into their specific problems and render technical service.
e. ***Central Footwear Training Institutes (CFTIs)*** develop footwear designing to promote exports.

Did u know? Sub-Contract Exchanges for Ancillary Development (SCXs) register and create database of the spare manufacturing/service capacity of SSI; create database of requirements of large/medium units and match the requirements with the spare capacity available with small units; and arrange Buyer-Seller Meets, organize vendor exhibitions, seminar, workshops for large-small units coordination, quality up gradation, export promotion, etc. and facilitate flow of data on vendor development.

Thus, the main services rendered by DC SSI office are:

(a) Advising the Government in policy formulation for the promotion and development of small scale industries.

(b) Providing techno-economic and managerial consultancy, common facilities to small scale units.

(c) Providing facilities for technology upgradation, modernization, quality improvement and infrastructure.

(d) Developing Human Resources through training and skill upgradation.

(e) Providing economic information services.

(f) Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of Small Scale Industries.

(g) Evolving and coordinating policies and programmes for development of Small Scale Industries as ancillaries to large and medium scale industries.

(h) Monitoring of Prime Minister Rozgar Yojna (PMRY) Scheme.

National Small Industries Corporation (NSIC)

The National Small Industries Corporation Ltd. was set up in 1955 with a view to promoting, aiding and fostering the growth of small scale industries in the country with focus on commercial aspects of these functions. NSIC continues to implement its various programmes and projects throughout the country to assist the SSI units. The Corporation has been assisting the sector through the following schemes and activities:

(a) ***Composite Term Loan Scheme:*** To promote small-scale sector, NSIC has launched a Composite Term Loan Scheme for the benefit of existing and prospective entrepreneurs to acquire land and building, machinery and equipment and working capital under one roof to the tiny units.

(b) ***Hire Purchase Scheme:*** Supply of indigenous and imported machinery and equipment on easy financial terms with special focus on women entrepreneurs, weaker sections, handicapped and ex-servicemen and SC/ST entrepreneurs.

(c) ***Equipment Leasing:*** It is done mainly to facilitate SMEs to expand their capacities or diversify and/or upgrade their technology according to the needs of the market.

(d) ***Working Capital Finance:*** This Scheme aims at augmenting working capital of viable and well managed units, on selective basis in case of emergent requirements to enable themto pay-off their purchase of consumable stores, spares and production related overheads particularly electricity bills, statutory dues.

(e) ***Raw Material Assistance:*** It facilitates availability of scarce raw material either through the domestic market or by importing.

(f) ***Marketing Support Programme:*** NSIC has been trying to act as a major agency to bring SMEs closer to various Governmental purchasing agencies, with the intention of creating confidence in the purchasing agencies about SMEs, and their capabilities to supply goods and services of requisite quality, economic prices and adherence to agreed delivery schedules.

(g) ***Tender Marketing:*** It participates in bulk local/global tender on behalf of Small Scale Industries/Enterprises. It is aimed at assisting SSIs with the ability to manufacture quality products but which lack brand equity & credibility or have limited financial capabilities.

(h) ***Integrated Marketing Support:*** NSIC has been operating an Integrated Marketing Support Programme in which bills pertaining to supplies made by small scale units to eligible purchasers are discounted by NSIC up to a certain specified limit.

(i) ***Government Stores Purchase Programme:*** The units registered with the Corporation for participation in government purchase programme are considered at or with individual purchase organisations and derive all the benefits like free supply of tender forms, exemption from payment of earnest money, security deposits, etc.

(j) ***Technology Up gradation:*** Excellent technical support is provided to SSIs/SMEs through five NSIC-Technical Service Centres. These centres have been recognised by Council of Scientific and Industrial Research for in-house R&D. NSIC has set up a Technology Transfer Centre. The latest information is provided to on-line connections and networks of computers on matching technology seekers and technology providers are arranged through the Technology Transfer Centre.

(k) ***Software Technology Parks:*** NSIC has set up a NSIC-STP Complex under Software Technology Parks of India (STPI). Software Technology Parks facilitates small scale units to establish their units for the 100% export of software and also act as the major point to activate software exports directly through NSIC.

Caution NSIC-STP Complex at Okhla, New Delhi is one of such Parks set up by the National Small Industries Corporation under the Software Technology Parks of India to promote small entrepreneurs in software development.

NSIC-STP provides high speed better communication facilities through VSNL/SATCOM networks, built-up office space, and uninterrupted power supply, back-up power through DG sets, a modern business centre and other administrative support.

(l) ***Exports:*** NSIC is providing a complete package of export assistance, testing facilities, pre-shipment credit facility, export incentives etc. apart from exposure to the products of SSEs in trade fairs, buyer and seller meets etc.

Notes The Corporation has been endeavouring to increase share of Indian industries in purchases to United Nations Organization, it being the largest single buyer in the world.

Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament in April 1957. The KVIC is supposed to do the planning, promotion, organization and implementation of programmers for the development of Khadi and other village industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary.

National Institute of Small Industry Extension Training (NISIET)

National Institute of Small Industry Extension Training (NISIET), Hyderabad, which undertakes operations ranging from training, consultancy, research and education, to extension and information services.

Caution The NISIET, since its inception in 1960 by the Government of India, has taken gigantic strides to become the premier institution for the promotion, development and modernization of the SME sector.

An autonomous arm of the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI), the Institute strives to achieve its avowed objectives through a gamut of operations ranging from training, consultancy, research and education, to extension and information services.

A Centre of Excellence: It was in 1984 that the UNIDO had recognised SIET as an institute of meritorious performance under its Centres of Excellence Scheme to extend aid. Subsequently, it was also accorded national status and SIET Institute became NISIET in the same year.

The NISIET was setup as an apex institute in 1960 by the Government of India, with the Charter of assisting in the promotion, development, and modernization of Small and Medium Enterprises (SMEs) to progress towards success and prosperity. With this vast expertise in the areas of entrepreneurship, policy, technology, management, and information services, the institute is consistently assisting the SMEs to face with confidence, the challenge brought about by globalization and the impact of IT on their businesses. As a global organization, NISIET‘s stellar role in positioning the SMEs on the growth trajectory has benefited not only the Indian SME sector, but also developing countries around the world, in promoting self-employment and enterprise development. The institute is constantly evolving with time, modifying is focus with the emerging need of SMEs, providing them solutions in the form of consultancy, training research, and education to retain their competitive edge in ever-hanging makers.

National Institute for Entrepreneurship and Small Business Development (NIESBUD)

National Institute for Entrepreneurship and Small Business Development (NIESBUD), New Delhi, it conducts national and international level training programmes in different fields and disciplines.

The National Institute for Entrepreneurship and Small Business Development (NIESBUD), an autonomous institution under the ministry of micro, small and medium enterprises, Government of India, has joined hands with the International Finance Corporation, a member of the World Bank Group, for jointly undertaking different projects relating to entrepreneurship development in India.

Figure 13.1: National Institute for Entrepreneurship and Small Business Development

Source: Lali Madhurima (2012), *Small Business Management*, Excel Books Pvt. Ltd.

National Institute for Entrepreneurship and Small Business Development (NIESBUD) is a premier Institute under the Ministry of MSME for coordinating, training and overseeing the activities of various institutions and agencies engaged in Entrepreneurship Development particularly in the area of small industry and small business. NIESBUD has launched a major project for Entrepreneurship and Skill Development of 35,000 youth by December 2011 in the states of West Bengal, Uttarakhand, Uttar Pradesh, Madhya Pradesh, Haryana, Delhi, Rajasthan, Orissa, Bihar, Jharkhand, Chhattisgarh, Punjab, J&K, Gujarat and Union Territory of Chandigarh. NIESBUD is one among several Institutions functioning under the Ministry of MSME. In its endeavour to spread entrepreneurial culture throughout the country, the Ministry is being assisted by two more entrepreneurship development Institutions namely National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad and Indian Institute of Entrepreneurship, Guwahati.

NIESBUD to Promote e-learning Initiative

The National Institute for Entrepreneurship and Small Business Development (NIESBUD) has entered into a Memorandum of Understanding (MoU) with Sun Online Learning India Pvt Ltd for promoting an e-learning initiative developed by the company, according to a press release of the ministry of micro, small and medium enterprises (MSME).

NIESBUD is an organisation of the ministry which is engaged in training, research and other interventions aimed at promoting entrepreneurship and development of micro and small enterprises. Sun Online Learning's e-learning initiative is aimed at career planning and career enhancement.

The MoU was signed between Arun Kumar Jha, director general, NIESBUD and Kris Srikkanth, the former captain of the Indian cricket team and director of the company.

The digital learning package consists of two modules — employability skills and entrepreneurship skills. The modules have been designed with the objective of equipping

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students and professionals with the skills required to make them employable and successful entrepreneurs.

Analogies from cricket are used in imparting training, to make the learning easy and interesting. The MoU is expected to foster an entrepreneurial culture among different strata of society.

Source: http://www.business-standard.com/article/sme/niesbud-to-promote-e-learning-initiative-112102300070_1.html

Identifying Skills for Maximum Employment

The Skills have been identified on the basis of market needs to ensure maximum employment. The Institute hopes that at least 25% of the participants will be employed within this financial year. The main skills identified are Housekeeping & Hospitality, Retail Management, IT & ITES, Light Engineering, Fashion Designing, Artificial Gems & Jewellery and Cosmetology and Beautician. Most of these training programmes are being sponsored by the Ministry under the Scheme of ‗Assistance to Training Institutes'. The participants are encouraged to gain self employment and are provided hand holding support under the scheme of Rajiv Gandhi Udyami Mitra Yojana (RGUMY) being implemented by the Ministry of MSME. The programmes are closely monitored to ensure the highest quality.

Example: The District Administration, Industry and Business Associations, Bankers and Placement Agencies are closely involved with the programmes.

Figure 13.2: National and International Forum

Source: Lall Madhurima, (2012), *Small Business Management*, Excel Books Pvt. Ltd.

National and International Forum for Exchange of Ideas

NIESBUD has been conducting training programmes for national and International participants since 1983 besides conducting research studies and providing guidance and consultancy to new and existing entrepreneurs in MSME sector.

Example: NIESBUD has been working with different Ministries like Ministry of Labour and Employment, Rural Development, Social Justice & Empowerment, etc. and assisting them in fulfilling their objectives.

Promoting Entrepreneurship

NIESBUD has helped Central and State Governments and their agencies in promoting entrepreneurship in their respective areas by way of guidance, consultancy, etc. It has also provided support and guidance to various countries in Asia and Africa.

NIESBUD has recently organized more than 100 Workshops in different Engineering Colleges, Management Institutions and others in order to create awareness among the students and faculty in realizing the power of entrepreneurship. Thousands of students and hundreds of Faculties realized that the ultimate need of the country is not only to create another employee rather to establish entrepreneurs who will in turn provide employment to many persons.

Notes Till the end of 2010–11, the Institute has trained more than 75,000 persons including 2100 from 125 countries and plans to conduct 8 international training programmes for training 200 participants from 25 Countries in 2011–12 the Institutes will also train at least 40,000 persons in employable skills and will strive for the wage and self employment of at least 10,000 participants.

Self Assessment

Fill in the blanks:

1. The Office of the Development Commissioner (Small Scale Industries) is also known as the………………..
2. continues to implement its various programmes and projects throughout the country to assist the SSI units.
3. The ....s a statutory body created by an Act of Parliament in April 1957.
4. ....is done mainly to facilitate SMEs to expand their capacities or diversify and/or upgrade their technology according to the needs of the market.
5. The ....have been identified on the basis of market needs to ensure maximum employment.

<u>State Level Institutions</u>

State Level Institutions execute different promotional and developmental projects/schemes and provide a number of supporting incentives for development and promotion of small scale sector in their respective States. These are executed through State Directorate of Industries, who has District Industries Centres (DICs) under them to implement Central/State Level schemes. The State Industrial Development Corporations also look after the needs of the small-scale sector.

State Industrial Development Corporations (SIDCs)

Incorporated under the companies Act, 1956 SIDC‘s were set up in different states as wholly owned companies for promoting industrial development in their respective states. The main functions of SIDC‘s are as follows:

(a) Providing term finance to all small, medium and large industrial enterprises set up in state.

(b) Underwriting and directly subscribing to shares, and debentures of debentures of industrial enterprises being set up in the state.

(c) Preparing feasibility studies, conducting market surveys and motivating private entrepreneurs to set up their industrial ventures in the state.

(d) Collaborating with private entrepreneurs to set up industrial ventures in joint and assisted sector.

(e) Implementing scheme of ‗Industrial Development Bank of India' of seed capital in the state.

State Directorate of Industries (SDIs)

Under the constitution of India promotion and development of small scale industries is a State subject. Therefore, the primary responsibility for implementation of policies and programmes of assistance rests with the Directorate of Industries in each State. It acts under the overall guidance of SIDO and concerned Central institutions. It performs both regulatory and developmental functions. It functions through a network of District Industries offices, industries offices and extension offices at district sub-division and block level respectively.

The main functions of Directorate of Industries are as follows:

(a) Registration of small scale units

(b) Providing financial assistance

(c) Distributing scare and indigenous raw materials to industrial units

(d) Granting essentiality certificates for import of raw material

(e) Establishing industrial estates and industrial cooperatives

(f) Developing industrial infrastructure

(g) Undertaking industrial surveys and collecting information

(h) Arranging concessions and incentives for industries

(i) Overall administration of village and small scale industries

(j) Maintaining liaison with other agencies for industrial development

District Industries Centres (DICs)

The District Industries Centers programme was launched in 1978 for effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns. These centers are the focal points providing all the services and support required by small scale and village entrepreneurs under one roof. These serves as an integrated administrative framework at the district level for industrial development.

The main functions of DICs are as follows:

1. It conducts surveys to know industrial potential of a district keeping in view the availability of raw material, human skills, infrastructure, demand, etc.

2. It prepares an action plan for industrial development.

3. It appraises the various investment proposals received from entrepreneurs.

4. It guides and assists entrepreneurs in buying appropriate machinery and equipment and raw material.

5. It suggests appropriate marketing strategies to entrepreneurs.

6. It maintains links with research and development institutions for upgradation of technology, quality improvement, industrial training etc.

7. It conducts artisans training programmes.

8. It has been assigned operation responsibility for special schemes to provide self- employment to educated unemployed youths.

Small Industries Development Bank of India (SIDBI)

Of all the elements that go into a business, credit is perhaps the most crucial. The best of plans can come to naught if adequate finance is not available at the right time. SSIs need credit support not only for running the enterprise and operational requirements but also for diversification, modernization/ up gradation of facilities, capacity expansion etc. In respect of SSIs, the problem of credit becomes all the more critical when ever any episodic event occurs such as a large order, rejection of consignment, inordinate delay in payment etc. In general, SSIs operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit.

Government of India recognized the need for a focused credit policy for SSIs in the early days of promotion of SSIs and RBI has been instrumental in devising a multi-stage approach/financial system for credit dispensation to different sectors of the economy, for example, agriculture, industry, exports, SSIs etc. The SIDBI was established in 1990 as the apex refinance bank. The SIDBI is operating different programmes and schemes through five Regional Offices and 33 Branch Offices. The financial assistance of SIDBI to the small scale sector is channelized through the two routes – direct and indirect.

Indirect Assistance

(a) SIDBI's financial assistance to small sector is primarily channelized through the existing credit delivery system, which consists of state level institutions, rural and commercial banks.

(b) SIDBI provides refinance to and discounts bills of Primarily Lending Institutions (PLI).

(c) The assistance is available for

- Marketing of SSI product
- Setting up of new ventures
- Availability of working capital
- Expansion
- Modernization
- Human resource development
- Diversification of existing units for all activities

Direct Assistance

(a) The loans are available for new ventures, diversification technology upgradation, modernization and expansion of well run small scale enterprises. Assistance is also available for private sector.

(b) Small scale sector is eligible for maximum debt-equity ratio of 3:1.

(c) Foreign currency loan for import of equipment are also available to export oriented small scale enterprises.

(d) SIDBI also provide venture capital assistance to the entrepreneurs for their innovative ventures if they have a sound management team, long term competitive advantage and a potential for above average profitability leading to attractive return on investment.

New Initiatives of SIDBI

- Two Subsidiaries viz. SIDBI Venture Capital Limited and SIDBI Trustee Company Limited formed to oversee Venture Capital.
- Technology Bureau for Small Enterprise formed to oversee Technology Transfer, Match making Services, Finance Syndication and facilitating Joint Ventures.
- SIDBI Foundation for Micro Credit has been launched to provide financial assistance to the poor and to meet emerging needs of the micro finance sector especially in rural areas.

Self Assessment

State whether the following statements are true or false:

6. Central Level Institutions execute different promotional and developmental projects/ schemes.
7. SIDC's were set up in different states as wholly owned companies for promoting industrial development in their respective states.
8. Under the constitution of India promotion and development of small scale industries is a State subject.
9. The District Industries Centers programme was launched in 1980 for effective promotion of cottage and small scale industries.
10. The SIDBI is operating different programmes and schemes through 6 Regional Offices and 34 Branch Offices.

Other Agencies

Following are the other independent agencies that support Small business enterprises:

National Bank for Agriculture and Rural Development

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with:

1. Providing refinance to lending institutions in rural areas.
2. Bringing about or promoting institutional development.
3. Evaluating, monitoring and inspecting the client banks.

Besides this pivotal role, NABARD also:

1. Acts as a coordinator in the operations of rural credit institutions.
2. Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development.
3. Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
4. Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.
5. Acts as regulator for cooperative banks and RRB‘s.

Set up in 1982, provide refinance assistance to State Cooperative Banks, Regional Rural Banks, and other approved institutions for all kinds of production and investment credit to SSIs, artisans, cottage and village industries, handicrafts and other allied activities. Helps SSI entrepreneurs to get loan for setting up SSIs in any part of the country.

Housing and Urban Development Corporation Ltd. (HUDCO)

Wholly owned company of GOI, incorporated Apr.1970, as a Pvt. Ltd. Co. and subsequently, converted into a Public Ltd. Co. in 1986. Primary objective is to provide assistance for urban, social sector infrastructure, and the creation of housing facility, of late, to create SSI infrastructure. Also extends assistance for the promotion of building material industries, besides imparting consultancy, training and technical in related matters.

Technical Consultancy Organizations (TCOs)

Set up by all-India financial institutions during 70s and 80s to cater to consultancy needs of SMEs and new entrepreneurs. Services include preparing project profiles and feasibility studies, undertaking industrial potential surveys, identifying potential entrepreneurs and provision of technical and management assistance to them, undertake market research and surveys for specific products, carrying out energy audit and energy conservatism assignment, project supervision, taking up assignments on a turnkey basis, undertaking export consultancy for EOU.

Task Critically analyse the role of institutions in promoting small scale business.

Self Assessment

Fill in the blanks:

11 .... is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture.

12. NABARD acts as a ....in the operations of rural credit institutions.

13. NABARD was set up in ………………….

14 is wholly owned company of GOI, incorporated Apr.1970, as a Pvt. Ltd. Co. and subsequently, converted into a Public Ltd. Co. in 1986.

15 was set up by all-India financial institutions during 70s and 80s to cater to consultancy needs of SMEs and new entrepreneurs.

Case Study **As Farmers Suffer, NABARD Offers Soft Loansto Business Enterprises**

The National Bank for Agriculture and Rural Development (NABARD), which is dedicated to promoting rural development by providing soft loans to State governments for social sector projects, has given hundreds of crores as loans to corporates on concessional terms.

In the Union Budget of 2011-12, ` 18,000 crore was allocated by the Centre to NABARD's Rural Infrastructure Development Fund (RIDF), of which ` 2,000 crore was exclusively earmarked for the creation of warehousing facilities. While the allocation of ` 16,000 crore to the States was made by NABARD's State Projects Department, the allocation of ` 2,000 crore towards warehousing was entrusted to a new team set up on the recommendation of global consulting firm Boston Consulting Group (BCG), after being awarded the mandate for a repositioning exercise.

In a circular of September 27, 2011, NABARD, making a significant deviation from its earlier policies, included private entities as eligible institutions without consulting the RBI. In another circular of December 23, 2011, NABARD further revised the scheme, again without consulting the RBI, to provide private firms an interest rate rebate of 1.5%. In violation of the regulated 8% rate levied by RIDF, an avenue was created for flow of funds to corporates and release of the interest rate rebate to the borrowers directly by NABARD.

According to documents available with The Hindu, a total of ` 759 crore was disbursed, including as refinance at 8% to various banks to fund 516 warehouses and cold storage projects of private entities in March 16-31, 2012. Shubham Logistics Ltd, a subsidiary of the over ` 6,000 crore Kalpataru Group, was handpicked for a rebate of 1.5%, allowing it to access ` 115 crore under a government scheme at a concessional 6.5% rate of interest. Shubham Logistics would have paid a 10.5% rate of interest had the funds been sourced from the market. The company, which was disbursed a total of ` 180.87 crore, to set up 18 warehouses, became the beneficiary of a further 15% subsidy under another government scheme, entitling the company to a refund of over ` 20 crore.

The two schemes that were used to favour Shubham Logistics are Grameen Bhandaran Yojana which offers subsidy of 15% to 33.33% for construction of rural godowns. For corporates the subsidy is 15% of total financial outlay up to a maximum of ` 28.12 lakh. Under the other scheme, _Warehousing scheme under RIDF', banks are offered refinance at 8% which can be further reduced to 6.5% as an incentive for prompt repayment.

Documents reveal that the RBI has questioned NABARD's interest rate manipulations in financing warehousing projects without its permission and demanded a recall of the ` 759 crore allocated to private firms. Compliance with this directive means that NABARD will have to return the money to the RBI and raise debt from the market to honour its commitments. This is likely to hit NABARD's balance sheet by roughly ` 150 crore. The Ministry of Agriculture has further questioned irregularities in Shubham Logistics storage projects in Deesa, Banaskantha, pointing out that the project is ineligible for sanction of the subsidy.

Meanwhile, Aditya Bafna, Executive Director of Shubham Logistics Ltd (SSLL), a subsidiary of Kalpataru Power Transmission Ltd was appointed Director on the board of NABARD Consultancy Services Private Ltd (NABCONS) — a wholly owned subsidiary of NABARD —

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Notes

on January 15, 2010. He refused to comment on either the allegations of special favours or the conflict of interest arising from his appointment on the NABCONS Board.

NABARD's response to a RTI query reveals that it released ` 13.3 crore BCG for a 'repositioning' report that it admits has never been submitted. Sources in NABARD allege that an additional payment of ` 9 crore has also been released to ,rollout the recommendations`. NABARD Chairman Prakash Bakshi, under whose leadership these transactions were sanctioned, did not respond to detailed questions that were emailed to him on December 3, including on the fresh release of ` 9 crore to BCG or what hit NABARD's balance sheet was likely to take after the repayment to RBI of the unauthorised fund transfers to corporates.

BCG's Chairman, Asia Pacific, Janmejaya Sinha did not respond to detailed questions regarding whether the firm had any exposure to working with any developmental financial institution prior to its consulting assignment with NABARD, especially in the Asia Pacific region, the terms of reference and payment for the assignment or whether it was true that BCG was scouting for fresh business opportunities with the RBI.

Question

Do you think the deviation made by NABARD in its policies was a right decision?

Source: http://www.thehindu.com/news/national/as-farmers-suffer-nabard-offers-soft-loans-to-corporates/article4181802.ece

Summary

- SSI Board is the apex non-statutory advisory body constituted by the Government of India to render advice on all issues pertaining to the SSI sector.
- The Office of the Development Commissioner (Small Scale Industries) is also known as the Small Industry Development Organization (SIDO).
- The National Small Industries Corporation Ltd. was set up in 1955 with a view to promoting, aiding and fostering the growth of small scale industries in the country with focus on commercial aspects of these functions.
- NSIC has been trying to act as a major agency to bring SMEs closer to various Governmental purchasing agencies, with the intention of creating confidence in the purchasing agencies about SMEs, and their capabilities to supply goods and services of requisite quality, economic prices and adherence to agreed delivery schedules.
- NSIC has set up a NSIC-STP Complex under Software Technology Parks of India (STPI).
- The Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament in April 1957.
- National Institute of Small Industry Extension Training (NISIET), Hyderabad, which undertakes operations ranging from training, consultancy, research and education, to extension and information services.
- The NISIET was setup as an apex institute in 1960 by the Government of India, with the Charter of assisting in the promotion, development, and modernization of Small and Medium Enterprises (SMEs) to progress towards success and prosperity.
- NIESBUD is one among several Institutions functioning under the Ministry of MSME. In its endeavour to spread entrepreneurial culture throughout the country, the Ministry is being assisted by two more entrepreneurship development Institutions namely National

Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad and Indian Institute of Entrepreneurship, Guwahati.

- NIESBUD has been conducting training programmes for national and International participants since 1983 besides conducting research studies and providing guidance and consultancy to new and existing entrepreneurs in MSME sector.
- NIESBUD has helped Central and State Governments and their agencies in promoting entrepreneurship in their respective areas by way of guidance, consultancy, etc.
- State Level Institutions execute different promotional and developmental projects/schemes and provide a number of supporting incentives for development and promotion of small scale sector in their respective States.
- The District Industries Centers programme was launched in 1978 for effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns.

Keywords

***Commission**:* The authority to perform a task or certain duties.

***Equipment Leasing**:* It is done mainly to facilitate SMEs to expand their capacities or diversify and/or upgrade their technology according to the needs of the market.

***Exports**:* Exports are products which are produced in one country and sent to another.

***Khadi and Village Industries Commission (KVIC)**:* It is a statutory body created by an Act of Parliament in April 1957.

National Institute for Entrepreneurship and Small Business Development (NIESBUD): It is an autonomous institution under the ministry of micro, small and medium enterprises, Government of India, has joined hands with the International Finance Corporation, a member of the World Bank Group, for jointly undertaking different projects relating to entrepreneurship development in India.

***National Institute of Small Industry Extension Training (NISIET)**:* The NISIET, since its inception in 1960 by the Government of India, has taken gigantic strides to become the premier institution for the promotion, development and modernization of the SME sector.

***Raw Material Assistance**:* It facilitates availability of scarce raw material either through the domestic market or by importing.

***Skills**:* An ability and capacity acquired through deliberate, systematic, and sustained effort to smoothly and adaptively carryout complex activities.

***Technology**:* The word technology refers to the making, modification, usage, and knowledge of tools, machines, techniques, crafts, systems, and methods of organization, in order to solve a problem, improve a preexisting solution to a problem, achieve a goal, handle an applied input/ output relation or perform a specific function.

Term Loan: A term loan is a monetary loan that is repaid in regular payments over a set period of time.

***Training**:* The action of teaching a person or animal a particular skill or type of behavior.

***Working Capital Finance**:* This Scheme aims at augmenting working capital of viable and well managed units, on selective basis in case of emergent requirements to enable them to pay-off their purchase of consumable stores, spares and production related overheads particularly electricity bills, statutory dues.

Review Questions

1. What is Small Industry Development Organization? Discuss its functions.
2. Highlight the main services rendered by DC SSI office.
3. Throw some light on National Small Industries Corporation.
4. Write brief note on National Institute of Small Industry Extension Training (NISIET).
5. What are the skills required for Maximum Employment?
6. Explain the main functions of SIDC.
7. Discuss the main functions of Directorate of Industries.
8. Describe District Industries Centres (DICs).
9. Distinguish between Direct and Indirect Assistance.
10. Discuss the new Initiatives of SIDBI.
11. Elucidate the role of NABARD.

Answers: Self Assessment

1.	Small Industry Development Organization (SIDO)	2.	NSIC
3.	Khadi and Village Industries Commission (KVIC)	4.	Equipment Leasing
5.	Skills	6.	False
7.	True	8.	True
9.	False	10.	False
11.	NABARD	12.	Coordinator
13.	1982	14.	HUDCO
15.	Technical Consultancy Organizations (TCOs)		

Further Readings

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Module 5 : Sickness in Small Business Enterprises

CONTENTS

Objectives

After studying this unit, you will be able to:

- Describe the status of sickness of SSI's in India
- Explain the causes of sickness
- Discuss the symptoms and cure of sickness

Introduction

The term _sickness‘ has been variedly defined by various authorities but, as a matter of fact, so far, the term itself has not received any universal recognition which could justify the concept of sickness in small-scale industries. This major handicap has acted as a fuel in the failure to recognize the actual state of sickness in these industries. A vagueness in the conceptual framework has contributed to confusion and has acted in a further deterioration of SSIs while recovering from their ill-health. It would be appropriate to examine critically some of the authoritative definitions and finally come up with a plausible outcome suggestive of the structure of the concept.

14.1 Status of Sickness of SSI's in India

Sickness in man is gradual process and does not develop suddenly. Similar is the case with industrial units. Therefore, in common parlance, a sick industry is one which is not healthy and a healthy unit is one which earns a reasonable return on capital employed and builds up reserves after providing reasonable depreciation.

A sick industrial unit may be defined as one where it fails to generate surplus on a continuous basis and depends upon frequent infusion of external funds for its survival.

According Reserve Bank of India (RBI): –A small-scale unit should be considered as sick if it has at the end of any accounting year, accumulated losses equal to or exceeding 50% of its peak net worth in the immediately preceding 5 accounting years‖.

The Sick Industrial Companies Act, 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses equaling or exceeding the net worth of the company at the end of the second financial year.

Sickness, in industry therefore, indicates more or less a perfect positive correlation with profitability, liquidity and solvency. The reasons of industrial sickness can be either internal or external.

Notes Industrial sickness in the small scale industries is an area of great concern nowadays. With an ever increasing population of the state and less scope for getting jobs in public sector, these small scale industries are the only hope of providing a source of livelihood to the local populace. In these present days of down-sizing and right-sizing in government jobs, a proper study of industrial sickness and finding its measures to stop it will be the only means of empowering the people for economic development.

Small-scale industries (SSIs) continue to play a significant role in industrial activity. The share of SSIs in the gross industrial value added in the economy is around 40 per cent. About 44 per cent of total manufactured exports are directly accounted for by the SSI sector.

Did u know? It has been estimated that a million rupees of investment on fixed assets in the small-scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points.

The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000.

Caution When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector.

SSI sector in India creates the largest employment opportunities for the Indian populace, next only to agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons.

SSI sector plays a major role in India's present export performance. 45-50% of Indian exports are contributed by the SSI sector. Direct exports from the SSI Sector account for nearly 35% of total exports.

Did u know? Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use of finished exportable goods.

It would surprise many to know that non-traditional products account for more than 95% of the SSI exports. The exports from SSI sector have been clocking excellent growth rates in this decade. This has been mostly fuelled by the performance of garments, leather, gems and jewelry units from this sector. The product groups where the SSI sector dominates in exports are sports goods, ready-made garments, woolen garments and knitwear, plastic products, processed food and leather products. The SSI sector is reorienting its export strategy towards the new trade regime being ushered in by the WTO.

The opportunities in the small-scale sector are enormous due to the following factors:

- Less capital intensive
- Extensive promotion and support by government
- Reservation for exclusive manufacture by small-scale sector
- Project profiles
- Funding - finance and subsidies
- Machinery procurement
- Raw material procurement
- Manpower training
- Technical and managerial skills
- Tooling and testing support
- Reservation for exclusive purchase by government
- Export promotion
- Growth in demand in the domestic market size due to overall economic growth
- Increasing export potential for Indian products
- Growth in requirements for ancillary units due to the increase in number of greenfield units coming up in the large scale sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

The promotional and protective policies of the government have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalization coupled with government support will, therefore, attract the infusion of just these things in the sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

Caselet

Sarathbabu: An Entrepreneur

Meet Sarathbabu, the 27 year old IIM, Ahmedabad Graduate who rejected lucrative campus offers to start a business. But then this is not special, around 30-40% IIM graduate reject offers to start their business. What is special about Sarath babu is even the hard atrocities of life faced by him could not deter him from achieving the present status and position. He belongs to a very economically weak family, he was amongst the five children that were nurtured by their single mother, who worked for mid-day meal, taught in an every programme and sold idlis in the morning so that her kids could be nurtured and educated.

Even Sarathbabu also helped his mother in selling idlis. His mother's hard work did not go in vain, Sarathbabu did well in education, he did his B. Tech from BIT Pilani and was also selected by IIM, Ahemadabad (one of the most premiere institute in India.) He got good job offers, the job offers after MBA were especially lucrative for person like Sarathbabu because his mother dint even have a Pucca house, but he was determined to be an entrepreneur and started his Food Catering Services Private Limited with an initial capital of ` 11.75 lakh that he funded from a loan from a bank. He has orders from big institutions – IIM Ahmedabad, Darpan Academy Gujrat Energy Research Institute & Systems Plus. Though the business has taken a bigger shape now, the seeds of entrepreneurship were laid when he drew inspiration from his mother who sold idlis to earn livelihood & education for them.

Entrepreneurial bug finally hit him when he realized for the first time that people like Dhirubhai Ambani & Narayanmurthy with Companies like Reliance & Infosys employee thousands of people & hence take care of the livelihood of the employees and their families and hence indirectly help lakhs of people. This noble act of taking care of large section of the society finally unveiled the entrepreneur in him.

Source: Lall Madhurima and Sahai Shikha (2008), *Entrepreneurship*, Excel Books Pvt. Ltd.

Self Assessment

Fill in the blanks:

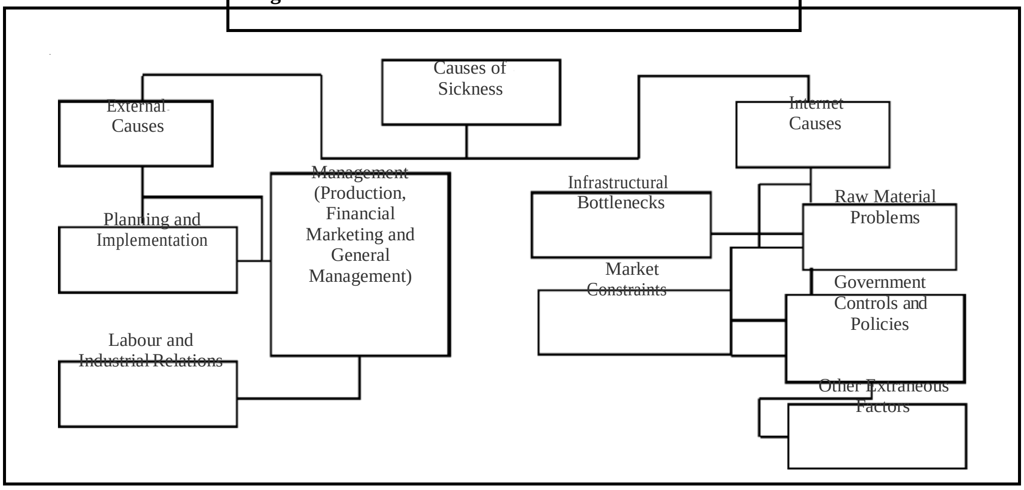
1. Small-scale industries continue to play a significant role in ....activity.
2. The number of small-scale units has increased from an estimated..................................... million units in the year 1980-81 to over 3 million in the year 2000.
3. SSI sector plays a major role in India's present .... performance.
4. It would surprise many to know that non-traditional products account for more than of the SSI exports.
5. The promotional and protective policies of the government have ensured the presence of this sector in an astonishing range of products, particularly in ....goods.

14.2 Causes of Sickness

As far as the causes of sickness in small-scale industry are concerned, it cannot be attributed to a single factor. In fact, it is an outcome of the cumulative effect of many factors/causes working simultaneously which may not be closely interrelated on even interdependent. The important causes of industrial sickness can be classified as:

1. External causes, and
2. Internal causes

Figure 14.1: Various Causes of Industrial Sickness



Source: Lall Madhurima and Sahai Shikha (2008), *Entrepreneurship*, Excel Books Pvt. Ltd.

External Causes: The external causes are beyond the control of the industry, and usually effect the industry group as a whole, e.g.,

- Non-availability of raw material (or irregular supply, or availability at high prices).
- A general recessionary trend in the economy which affects the overall performance of the industrial units.
- High cost of production facing a low realization of sales revenue.
- Irregular supply of vital inputs such as power, water, transportation, etc.
- Fiscal irregularities such as those possible in excise duties, import duties, etc.
- Unfavourable change in government/institutional policies.
- Industrial strikes, unrest, etc.
- Natural calamities such as drought, earthquakes, flood, etc.

Internal Causes: Internal causes are within the control of the industry. It may be an outcome of some internal deficiencies or shortcomings in its various functional areas such as marketing, management production, finance, etc. Most of the causes of industrial sickness are, however, due to internal factors such as:

- Lack of control on key areas like management, finance, marketing, inventory, etc.
- Shortage of working capital.
- An improper demand forecast for the products to be sold.
- Inappropriate choice of technology, non-flexibility of fixed assets, wrong location or layout of industry.
- A defective capital structure especially on account of delayed constructions and operations, resulting in cost overruns and non-budgeted borrowings interest burden there from.

14.2.1 Mismanagement

A mismanaged unit is, in fact, a sick unit. Management must be intelligent, brilliantly capable, decisive, innovative, very efficient and assuring. In most of the sick units, management fails to take proper decisions on routine matters. Important decisions regarding site selection, production process, promotion avenues, marketing management, etc., are often ignored.

Compared to large-scale industry, management in small business is inherently more difficult and complex due to its nature of single management band. Mostly, small industry is managed by an entrepreneur having experience in only one or two functions, usually production and selling. He is, therefore, most likely to err in other core operational areas like auditing, human resource management, planning, finance, etc. As all these activities require highly specialized skills, it becomes almost impossible for a single man to specialize in all of these fields. As a result, all areas of small business are not effectively managed. Hence, inefficient management makes the small-scale units highly prone to sickness.

Moreover, dynamism in management is generally found missing in these units. The ancestral and traditional businesses are mostly reluctant to introduce change.

Example: M/s Ashgar Ali Mohammad Ali prefers to sell their much-in-demand rose water in the same crude, old fashioned bottles with old sampling method. Generally, the senior- most (old) man takes decisions regarding the product and he would generally stick to the same
old set pattern. The unit would not respond to the changing environment of the market. Under such static conditions, the unit is bound to become sick. As a word of caution, the introduction of change does not mean that the management should become over-dynamic or over-enthusiastic and start diversifying the product or the whole business indiscriminately.

14.2.2 Marketing

Most of the sick units suffer from inefficient marketing management. Small business generally adopts a traditional way of marketing where _more‘ is regarded as _better‘. If marketing places a continuous reliance on the promotion of material consumption, it would lead to a prosperous stage of industrial growth. This notion had served well initially, but with rising constraints such as limited resources, economic factors, environmental factors, etc., moving on the same, traditional paths of marketing appears questionable. The traditional marketing system is one of the major cause of sickness in SSIs.

Most small-scale industries become sick mainly because of their inability to market their products for various reasons such as poor quality of products, lack of market informations, poor advertising, obsolete technical back-ups, less competitive potentials, lack of professionalism, etc. Though the government has been quite protective in reserving around 860 items exclusively for SSIs, the sector still faces some serious marketing handicaps. Most of the SSIs that act as ancillaries to large industry, are forced to restrict their sales to the local market only, which leads to accumulation of stock coupled with lack of demand and deficiency of working capital to procure raw material and other physical resources to keep the unit moving. The restrictive marketing scenario thrust on SSIs compels them to restrict their scale of operations, and forgo economies of scale that could lead them to optimum position.

Example: The ancilliary industries often face various problems of marketing like;

(1) absence of a structured pricing system,

(2) inadequacy of technological support,

(3) delayed payments by their parent units,

(4) interference in decision-making by parent industry,

(5) non-adherence to quality and delivery schedules.Mismanagement.

14.2.3 Implementation Lacunae

In cases of newly established small business, it often faces a delay in the implementation of its plans.

Example: A delay in the construction of the building within the scheduled time, would lead to delay in the installation of plant and machinery and consequently the working capital could not be used in time, etc.

If initial functions are delayed further, production and sales automatically get affected. Inability to implement the contingency plan in time, would in turn, delay the release of further installments of loans from the financial institutions. Side by side, costs also shoot up and the demand projections become obsolete. It is obvious that in such cases of sequential delays in implementation of plans, sickness is anticipated from the very initial stages of a project.

14.2.4 Poor Information System

Extremely poor information and reporting system is a normal feature in SSIs, where accounts, cash flow planning, costing, budgetary control, breakdowns, sales revenues, financial statements, statement of chargeable current assets, etc., are not properly reported on a day-to-day basis. At the same time, there is an intensely low level of communication and information system. The information department needs to be set up to strengthen small units.

14.2.5 Energy Problem

Shortage of power have done irreparable harm to SSIs in most of the states. Only a few years ago, some 2000 SSIs having nearly 20,000 workers were denied power by the Haryana State Electricity Board. HSEB was blamed for its general apathy towards the demand of SSIs and it resulted in the closure of these units. Similarly, most of the engineering and plastic industries have suffered greatly due to acute power shortage in UP, Orissa and MP. A better managed power sector and energy policy is required to save the SSIs from falling sick due to this avoidable lacuna.

14.2.6 Improper Technology

Obsolete technology and crude technology has been one of the major causes of sickness in small units. Frequent breakdowns, inefficiency in machinery performances due to inadequate maintenance, and delays in renovating or replacing the machinery is a normal feature in these industries. The situation is made worse when, instead of using the funds for depreciation or development rebates, these liquid funds are diverted towards new and unrelated activities. This may help in the short run but will always make things difficult in the long run. –The last few years have seen a growing infusion of modern technology and as the market has become more competitive, the weak, the infirm and the static among the units find it difficult to survive.

Since a crucial element in the scenario has been technology, arrangements have to be made immediately to ensure its widest possible spread. During the last decade, increase in capital has been of order of 6.24 per cent, but the contribution of technology to modernization has been just about one per cent. At times, technology means risk capital. More importantly, the state government lacks the managerial personnel with the necessary know-how and dynamism to man key positions in the units which are taken over. Even if the government can find such technically qualified and business-oriented persons, it should give them adequate freedom of action. Yet, more of these measures will never work until the workforce comes to realize that it, too, has a stake in keeping a unit going.‖ The *Economic Times*, New Delhi, August 25,1994.

14.2.7 Overtrading

The firms grow at a faster rate than they are able to finance from internally generated cash flow and bank borrowings. The firm focuses only on sales, regardless of whether or not, the same is profitable. Profit margins are reduced and unprofitable buyers are wooed just to increase the (unprofitable) sales growth. There is also shortage of cash because the unit‘s sale, stock levels and general sales grows faster than their capital allows. A unit managed in such a fashion is bound to become sick.

14.2.8 Psychological Melodrama

Interestingly, the entrepreneurs – promoters of sick units never accept the blame for the sickness of their units. The blame is shifted on external factors like government, institutions, irregular facilities or so on. Self-analysis is altogether missing. Lack of exercise, heavy smoking and intoxication, lack of sleep, etc., causes decay in their personal efficiency which affects the health of the unit adversely. At the same time, owner-managers of such sick units would not accept that the unit is heading towards sickness at the incipient stage. As Goutanga P Chattopadhyay the great psychologist, remarks in *Industrial Sickness – A Psychodynamic Interpretation*, ―sometimes the entrepreneur finds it profitable to have his unit suffer losses chronically. The entrepreneur being psychologically sick is ruining the life of several employees and cheating many creditors and financial institutions, just to satisfy his self-indulgence need. On the other hand, the society will never blame itself for not being prepared to keep a check on irresponsibility, corruption of many of its so-called stalwarts.‖

Reluctance in reporting to factory bribery, unawareness of their managerial incompetencies, non-realization of work-man ratio, overloaded labour surplus, non-cognizance of the need to replace the old machinery and equipment, etc., are just some of the few unhealthy practices contributing to psychological sickness of units.

Self Assessment

State whether the following statements are true or false:

6. The internal causes are beyond the control of the industry, and usually effect the industry group as a whole.
7. A mismanaged unit is in fact a sick unit.
8. Efficient management makes the small-scale units highly prone to sickness.
9. The ancilliary industries often face various problem of marketing.
10. Obsolete technology and crude technology has been one of the major causes of sickness in small units.

14.3 Symptoms and Cure of Sickness

During the conduct of the survey that was undertaken by the authors for detection of sickness in small industries in over 50 industries, it was generally felt that, more important than searching for the causes or rehabilitation packages of the industrial units after they are crisis struck, is to be capable of identifying the symptoms of sickness in its very incipient stage. In most of the cases of industries visited, it was realized that the unit showed some definite symptoms before falling sick. But due to innumerous reasons, like unavailability of detector of symptoms, unwillingness to give cognizance, utter negligence of facts and lack of exact knowledge of symptoms, the units were caught in disaster. More interestingly, the reasons were not very complicated and with little effort could be neutralized and the units could have been saved. Furthermore, it was noted that none of the units under study had fallen sick all of a sudden. Sickness had overtaken the units slowly and in stages spread over a considerable period of time. It is, therefore, thought desirable to work out the symptoms in concrete terms so that the management and concerned authorities can be armed with techniques and safeguards which may indicate sickness well in advance. In any case, these techniques should be such that they can forewarn about the type and the extent of sicknesses and that too, the very moment when the affliction makes its first appearance.

14.3.1 Symptoms of Sickness

Sickness in the human body can be treated easily in the early stages – at the time the symptoms first strike – but when they are in an advanced stage, they may prove to be fatal or may defy all treatment. Symptoms can be external like natural calamities, war, government rules and regulations, new policy, etc., in which case the unit may not be in a position to play an effective role. But where the symptoms are internal, in most cases, no extraordinary or special steps would be needed to remedy the situation. The first signs of sickness generally fall within the purview of daily routine of the unit. These can be treated most effectively. If even after the detection of the following symptoms, the unit does not take an effective step, the agony is bound to be prolonged and may, at times, prove fatal. It should, therefore, be made mandatory on the part of the financial institutions, banks and the entrepreneur that they should have a system under which signals of sickness are received in time, so that corrective action may be taken on a scientific basis. It would, therefore, be appropriate to first of all enlist the important signals to identify sickness at the incipient stage:

1. Absence or little movement in stock.
2. Production and/or sales witnessing falling trend.
3. Frequent proposals for enhancement in credit limits.
4. Persistent irregularity in cash credit amount.
5. Negotiable instruments like bills, cheques, etc., being more often than not returned unpaid.
6. High drawing in cash by the borrowing unit.
7. Casual reconstitution of the firm at short intervals.
8. Laxity in turn-over of account.
9. Frequent rejection of or strictures about the goods supplied, by buyer.
10. Those expenses which could be written-off may go on increasing as they are not so far written-off.
11. Labor problems.
12. Overdependence on external funds.
13. Continuous increase in losses.
14. Denial on the part of the suppliers to supply raw materials.
15. Unreliability in ensuring stock and other assets adequately or in time.

16. Persistent disagreement or disharmony among the directors or partners.
17. Window dressing of accounts by the units.
18. Low morality on the part of the employees.
19. Laxity in payments to suppliers, employees, banks etc.
20. Undue delay in annual accounts.
21. Attempts to route transactions through other banks by the borrowing unit.
22. Industry being gripped by recessionary trends.
23. Low profile market reports.
24. Inflationary trends in the mode of stock valuation not warranted by any economic considerations.

These are some of the signals that were very profoundly obvious in the sick units of UP before they were declared sick. Had the management been sensitive towards the signals, a majority of the units could be saved. Thus, this discussion would remain ineffective if the sources of these signals are not laid down for future reference of upcoming small enterprises.

14.3.2 Cure of Sickness

Rehabilitation of a sick unit comes under process only after the viability study of the concerned small unit recommends for its revival along with the suggested reliefs or packages or any other way out. Sickness needs to be tackled with a great sense of urgency of commitment. Whatever the causes, the problem of rehabilitation calls for immediate attention of all concerned. Emphasis in this regard should be on measures of a long-term nature rather than on palliatives. There is indeed a pressing need to improve the skill base of small firms so as to upgrade the level of technical and general education of workers. Apart from improvement of theoretical instruction, efforts are required to upgrade practical experience in collaboration with large industry, including public sector undertakings.

Industrial sickness is a part of the process of industrialization. It leads to unemployment, blockage of capital, loss of state revenue and non-utilization of assets. Hence it is necessary to take proper steps in order to rehabilitate the sick industries. As such govt. is concerned about this and would take the following steps to stem sickness and revive sick industries.

Small Sector

(i) ***State Level Committee:*** For the rehabilitation of small industry a State Level Committee under the chairmanship of Director of Industries will be constituted. Its members comprise representatives from the banks, financial institutions, Reserve Bank of India, Industries Association, experts and Government.

(ii) The above committee would be empowered with necessary statutory powers in order to rehabilitate the sick industry so that approved rehabilitation package may be implemented effectively.

(iii) The guidelines of the Reserve Bank of India / IDBI / SIDBI would be relied upon to identify sickness in sick and small units. Appropriate rehabilitation package would be approved for their rehabilitation.

(iv) The sick industries being revived will not require sickness certificate on an annual basis, instead the revival package shall specify the period of revival of sick units.

(v) The industry declared sick by the State Level Committee would be eligible to receive reliefs and concessions from banks and financial institution as per instructions of RBI. These concessions and reliefs will be considered to be given within a definite time frame.

(vi) After the identification of sickness within a prescribed time frame the rehabilitation package would be prepared and the state level institutions would monitor the sick industries and their rehabilitation.

(vii) Those sick and closed units which have availed the benefits of any Industrial Policy in the past can avail even second time the facilities under this policy. If any sick or closed unit wants to avail the benefits under the Industrial Policy for the second time it will avail only the difference between the prior availed amount and the proposed amount under new policy. But this facility for rehabilitation to the unit will be made available only on the recommendation of the concerned committee constituted by the State Government. Such facility to the unit can be made available maximum of two times only.

(viii) ***Facility provided to the sick and closed units:*** Exemptions from Annual Minimum Guarantee (AMG), Monthly Minimum Guarantee (MMG) and Delayed Payment Surcharge (DPS) would be available to the unit from the date of declaration of the unit as a sick unit. This facility would be admissible for a period of five years.

Sickness in Medium and Large Industries

(i) A committee would be constituted under the chairmanship of Secretary Industry to explore the possibility and determine remedies for the revival of medium and large scale industries and Public Sector Undertakings (PSUS) which are sick and not referred to the BIFR and have a potential for revival. The recommendations of the above committee detailing the reliefs and concessions shall be placed for approval before the high powered committee existing under the chairmanship of the Chief Secretary.

(ii) The rehabilitation package envisaged by BIFR /IRB I/BICICO /BSFC/Bank and state level inter institutional committee shall be placed before the committee under the chairmanship of the Secretary, Industry for consideration and recommendation of Government.

(iii) Sick Industry means such industry, which has been registered by the Board for Industrial and Financial Reconstruction (BIFR).

(iv) Decision regarding closed industrial units shall be taken by a State Level Committee constituted under the chairmanship of Secretary Industries Department.

(v) Those sick and closed units which have availed the benefits of any Industrial Policy in the past can avail even second time the facilities under this policy. If any sick or closed unit wants to avail the benefits under the Industrial Policy for the second time it will avail only the difference between the prior availed amount and the proposed amount under new policy. But this facility for rehabilitation to the unit will be made available only on the recommendation of the concerned committee constituted by the State Government. Such facility to the unit can be made available maximum of two times only.

(vi) Facilities to sick and closed units: Exemption of Annual Minimum Guarantee (AMG), Monthly Minimum Guarantee (MMG) and delayed payment surcharge to the unit will be granted from the date of declaration of unit as a sick unit. This facility will be available for five years.

Self Assessment

Fill in the blanks:

11. ……………. had overtaken the units slowly and in stages spread over a considerable period of time.

12. of a sick unit comes under process only after the viability study of the concerned small unit recommends for its revival along with the suggested reliefs or packages or any other way out.

13. Industrial sickness is a part of the process of…………….

14. If any sick or closed unit wants to avail the benefits under the.................................…. -for the second time it will avail only the difference between the prior availed amount and the proposed amount under new policy.

15. Sick Industry means such industry, which has been registered by the…………….

Case Study **The Button Industry**

Taking the case of the button industry might surprise readers, but it is worthy of consideration because it represents rather an unusual case but also one that illustrates very well the diffusion of small-scale technology. The discovery in developing countries of similarly specialized technological areas could have important consequences for economic and technological development.

Buttons began to be imported around the time Western-style uniforms gained currency with the military, railways, the police departments, and similar groups. Besides buttons made of metal and bone, those made from shells, which were used for underwear, were also imported, although India had abundant raw materials of good quality.

Button manufacturing on a modest scale started in India from around 1878. They were expensive but of high quality, made by metal workers (such as goldsmiths and silversmiths) using files, whetstones, and punches. The market was extremely small, however, because of the continued dominance of traditional Indian wear, and, in order to establish a stable industry, button makers were compelled to turn to exporting their product.

Having noticed the existence of rich raw materials in India, a factory was opened, complete with an array of machines for making buttons around 1910. It was supplying the Indian market with –German-made buttons‖. The bleaching process used in button manufacturing had been kept confidential by the engineers, but a Indian processor‘s solution to the problem of bleaching gave Indian buttons, which had been treated as semi-finished goods, an advantage, thus forcing the factory out of business.

The answer to the question of how this was possible is to be found in the thorough division of the production process. Production at the factory was broken down into more than two dozen microprocesses, each of which became a separate job performed by a

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worker –manufacturing‖ at home. Moreover, as far as possible, no machines or equipment were used except those traditional tools and methods that demanded little in terms of skill. The next step was to reduce the processing costs to an extremely low level. This was identical to the business control exercised by the merchant over his scattered manufacturers. The button manufacturers unified and managed their individual microprocessors in the same way.

The simplification of work and the low processing costs did not lead to the independence of the microprocesses, but rather promoted side jobs at home. What originally had been a modern urban industry was transformed into an industry that depended on the labour of lower-class urban citizens working at home. It then penetrated into suburban agricultural areas in search of cheaper labour; the target was enlarged from the urban informal job class to the rural informal job class. Although, in order to master the whole technology for a basic production process (or several major processes), as opposed to a single, small process, it was necessary that the worker become an apprentice of a –manufacturer,‖ those who mastered the technology presented little threat of breaking away and becoming independent manufacturers! as their products were component parts rather than finished commodities.

The enlarged production of shell buttons brought profit to the merchant manufacturers. The shortage of raw materials caused by greater production and the conversion to and dependence on imported materials changed this situation, however. The sharp fluctuations in the price of raw materials brought on speculation and hampered distribution. When to this was added an increase in demand resulting from an economic boom, wholesalers and manufacturers were no longer able to undertake strict inspection of goods, and, as a result, the mass production of inferior-quality goods started. Holding down processing fees to too low a level can lead to this sort of situation.

In general, since various regulations had done away with certain business restrictions, the problem of the mass production of inferior-quality goods was seen in almost all the traditional industries and technologies. The situation was the same for new technologies that had been transformed into traditional-type technologies. When the change of raw materials occurred, that is, the addition and development of new technologies, the old structure of the business world had to be reformed. To protect the common interests in each sector of business, the master-apprentice system of control had to be transformed - democratized - into a system of control by an association.

The areas where rural industrialization developed were those in which commercialization of agricultural production was advanced. For example, the cases taken up in this study were in the western part of India, where cotton-growing and food-oil production had been active. The development of a modern cotton-spinning industry brought about the substitution of locally produced cotton with cotton imported from India, and the development of a modern food-oil industry centred in urban areas, ruined the traditional oil-making industry in this area.

Karnataka was another area where the button industry developed as a cottage industry after the traditional salt making (by the salt-field method) and sericulture lost their viability. The transition from the traditional salt-making and sericulture industries to modern button manufacturing was possible because of the long experience with producing for a broad market.

The successful and lucrative export of Christmas lights by farmers in during the chaotic period immediately after World War II is another example of the sort of adaptability that made possible the successful transition to new industries as the old ones lost their viability.

Contd...

Similarly interesting accounts exist concerning other sectors, such as the clock industry, which developed in parallel with sericulture and which contributed to establishing the habit of punctuality among farmers, an important element in the foundation of modernization. Also important were the early glass industry, the eyeglass industry and the development of bicycle industry technology.

Regrettably and surprisingly, the third world participants in our discussions showed no interest in the fact that an industry like the bicycle industry, though there are fewer component parts than in the watch industry, for example, could be used as a technological indicator if all parts are manufactured domestically as was true in India. The complete domestic production of bicycles when combined with engine technology, constituted the precondition for motor-cycle technology. The bicycle was useful as an index of technological convergence in India, and, as such, could be considered the first gateway for a newly industrializing country. High-quality ball-bearing manufacturing, in particular, is a good index.

After ensuring that the product will meet the needs of its intended market, and after carrying out world-wide market research to locate reliable suppliers of the most cost- efficient parts, bicycle production may be undertaken at much less cost than what is required to import finished bicycles, and there will be a larger market for these less-expensive bicycles than for imported finished bicycles. As with watches, technology in bicycles in India started with repairs and the production of replacement parts. Those engaged in bicycle repair (and production) were former blacksmiths, lathe operators, pump makers, and makers of Indian watches.

The Transformation of Technology in the Process of Industrialization

Industrialization, especially the process from technology transfer to self-reliance, should be a process accompanied by transformation. This may be called the adolescent period of technology transplantation.

The degree of technology transformation ranges from a single machine in operation to the change of an entire system. One of the most rudimentary examples can be found in the first British spinning machine India imported. The machine had been designed to fit the height of British workers; consequently, because Indian workers were shorter, they could use it only by looking upward and stretching their arms, which tired them quickly and diminished their efficiency. The mere installation of a footstool solved the problem, reducing worker fatigue and increasing productivity. Such a minor modification can sometimes greatly enhance efficiency and induce extremely important results.

Questions

1. Discuss the problems faced by button manufacturers in India.
2. How did the transformation of technology took place?

Source: Adapted from http://archive.unu.edu/unupress/unupbooks/uu36je/uu36je0e.htm

14.4 Summary

- A sick industrial unit may be defined as one where it fails to generate surplus on a continuous basis and depends upon frequent infusion of external funds for its survival.
- The Sick Industrial Companies Act 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses equaling or exceeding the net worth of the company at the end of the second financial year.